

## THE U.S. VIRGIN ISLANDS

### General

The U.S. Virgin Islands are comprised of 68 islands and cays located at the eastern end of the Greater Antilles in the Caribbean, approximately 1,100 miles southeast of Miami, Florida. The British Virgin Islands are located to the immediate northeast of the U.S. Virgin Islands and Puerto Rico is located approximately 70 miles to the west.

The three main islands of the U.S. Virgin Islands are St. Croix (84 square miles), St. Thomas (32 square miles) and St. John (20 square miles). St. Thomas and St. John are both distinguished by a rugged mountainous topography with numerous sandy beaches and inlets along the shoreline. St. Croix lies 40 miles south of St. Thomas and is known for its rolling hills and broad central plain which separates the relatively dry east end from the more tropical west end. Charlotte Amalie, St. Thomas, is the capital of the U.S. Virgin Islands.

The U.S. Virgin Islands were acquired by the United States from Denmark in 1917. The U.S. Virgin Islands operate as an unincorporated territory of the United States pursuant to the Revised Organic Act of 1954, as amended, under the jurisdiction of the U.S. Congress, federal agencies and the federal courts. Internal affairs of the U.S. Virgin Islands are under the jurisdiction of a governor and a lieutenant governor, both of whom are elected for a four-year term, a 15-member legislature which is elected for a two-year term and a territorial court, which is a court of lower jurisdiction. Judicial powers are vested in the U.S. District Court of the U.S. Virgin Islands and the territorial court. Appeals from the U.S. District Court are generally handled by the U.S. Court of Appeals for the Third Circuit in Philadelphia. All persons born in the U.S. Virgin Islands are United States citizens, but do not vote in national elections, and are represented in the United States Congress by a non-voting delegate. The official currency of the U.S. Virgin Islands is the United States dollar, and English is the official language.

Hurricane Hugo had a severe impact on the U.S. Virgin Islands' economy during 1990. This impact was felt significantly in the tourism sector due to a loss of hotel rooms and damage to the U.S. Virgin Islands' infrastructure. Temporary disruptions also occurred in the manufacturing sector. Preliminary estimates of total damages from the hurricane to public facilities, local infrastructure, businesses and residences exceed \$1.4 billion. By early summer of 1990, however, most economic activity recovered to pre-hurricane levels. Of particular importance has been the construction sector, which participated directly in the rebuilding of many areas of the U.S. Virgin Islands.

Furthermore, a \$300 million capital program by the Government of the Virgin Islands, which is being implemented over the next five years, along with other resources available for rebuilding subsequent to Hurricane Hugo, is anticipated to have a significant impact on the U.S. Virgin Islands' economy in the near term.

### Population and Income

Total population in the U.S. Virgin Islands increased from 1982 to 1985 but has declined since. from approximately 110,800 in 1985 to approximately 103,200 in 1988. Most of the residents of the U.S. Virgin Islands reside on the three main islands. Although the 1980 U.S. Census reports that 33.4% of the local population lives below the United States poverty level, as compared to 12.5% for the United States, per capita income steadily increased from 1982 to 1988, with the exception of 1985.

The following table presents U.S. Virgin Islands population and per capita income data for the years 1982 through 1988 (such data is not available for 1989 and 1990)\*:

<u>Year</u>	<u>Population</u>	<u>Percentage Increase (Decrease)</u>	<u>Per Capita Income</u>	<u>Percentage Increase (Decrease)</u>
1982 .....	101,500	—	\$6,911	—
1983 .....	103,700	2.2%	7,201	4.2%
1984 .....	107,500	3.7	7,569	5.1
1985 .....	110,800	3.1	7,410	(2.1)
1986 .....	109,500	(1.2)	7,912	6.8
1987 .....	106,100	(3.1)	8,717	10.2
1988 .....	103,200	(2.7)	N/A	N/A

\*Source: Bureau of Economic Research—U.S. Virgin Islands Department of Economic Development and Agriculture (the "Bureau of Economic Research").

### Employment

Except for a slight increase from 1987 to 1989, the unemployment rate in the U.S. Virgin Islands decreased each year from 1983 to 1990; since 1982, the number of persons employed in the U.S. Virgin Islands has increased 10.3%. In 1990, approximately 65.7% of the labor force was employed by the private sector in manufacturing, construction, transportation, and utilities, trade and services, finance, insurance and real estate jobs and approximately 29.4% of the labor force was employed by the territorial and federal governments. The overall unemployment rate in the U.S. Virgin Islands during 1990 averaged 2.9%, as compared with 5.5% in the United States.

The table below presents total labor force, employment data and unemployment rates for the U.S. Virgin Islands and unemployment rates for the United States for the years 1981 to 1990\*:

<u>Year</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment Rate U.S. Virgin Islands</u>	<u>Unemployment Rate United States</u>
1981 .....	43,650	40,820	6.5%	7.6%
1982 .....	43,760	40,320	7.9	9.7
1983 .....	43,970	40,370	8.2	9.6
1984 .....	43,680	40,380	7.6	7.5
1985 .....	42,960	40,450	6.0	7.2
1986 .....	43,990	41,910	4.7	7.0
1987 .....	44,960	43,600	3.0	6.2
1988 .....	46,590	45,060	3.3	5.5
1989 .....	46,970	45,260	3.6	5.3
1990 .....	45,780	44,460	2.9	5.5

\*Source: Bureau of Economic Research from Bureau of Labor Studies Reports.

## Construction

The table below presents the value of construction permits in the U.S. Virgin Islands from 1980 to 1990\*:

<u>Year</u>	<u>Value of Permits</u> (In millions)	<u>Percentage Increase (Decrease)</u>
1980.....	\$104.1	—
1981.....	62.7	(39.8)%
1982.....	58.4	(6.9)
1983.....	69.4	18.8
1984.....	93.9	35.3
1985.....	113.0	20.3
1986.....	119.8	6.0
1987.....	184.8	54.3
1988.....	247.9	34.1
1989.....	211.0	(14.9)
1990.....	380.1	80.1

\*Sources: Bureau of Economic Research; U.S. Department of Labor, Bureau of Labor Statistics.

The decline in 1989 and the sharp increase in 1990 were both due to Hurricane Hugo, which struck the islands in September 1989. In 1990, private residential construction accounted for approximately two-thirds of all permit value, private non-residential construction accounted for another one-quarter of the total value and public construction made up the remainder of the value. Of all types of construction, public construction showed the greatest rate of increase from 1989 to 1990.

## Tourism

The economy of the U.S. Virgin Islands, which is highly dependent on economic conditions in the United States, is primarily service-oriented, with tourism representing the major industry. Recent employment growth on St. Thomas and St. John has been a result of strong growth in tourism. Approximately 88.4% of the visitors to the U.S. Virgin Islands in 1990 arrived on St. Thomas or St. John.

The Bureau of Economic Research estimates that expenditures by visitors to the U.S. Virgin Islands totalled \$706.5 million in 1990, compared with \$682.1 million in 1989. This figure includes tourists—those persons staying for one day or more—and excursionists—those persons staying for less than one day.

The U.S. Virgin Islands is one of the largest cruise ship ports-of-call in the Caribbean. Approximately 1.1 million cruise ship passenger excursionists arrived in each of 1989 and 1990, contributing approximately \$156.7 million and \$151.8 million, respectively, to total visitor expenditures.

Tourist arrivals in the U.S. Virgin Islands increased each year from 1982 through 1988. In 1989, visitor arrivals decreased by more than 6%, due to the weakened U.S. economy, the shutdown/strike of Eastern Airlines and the related problems of the air-charter firm FlyFare in the first half of 1989 and Hurricane Hugo, which completely shut down the tourism industry from September 17, 1989 through the end of the year. During the latter months of 1989 and the first six months of 1990, the U.S. Virgin Islands engaged in an intensive reconstruction phase in an attempt to recover from the after-effects of Hurricane Hugo. Air arrivals from January to June of 1990 were estimated at 359,000, down 10% from the same period in 1989. However, 1990 second quarter air arrivals exceeded all second quarter air arrivals since 1986, indicating a strong rate of recovery from Hurricane Hugo's effects. During the first

half of 1990, cruise ship passenger arrivals increased approximately 5% to 588,000. The following tables indicate the growth in U.S. Virgin Islands visitor arrivals and tourist and excursionist expenditures from 1982 to 1990:

Arrivals*			
<u>Year</u>	<u>Tourists</u>	<u>Excursionists</u> (In thousands)	<u>Total</u>
1982 .....	340.0	816.1	1,156.1
1983 .....	345.0	868.7	1,213.7
1984 .....	369.5	895.3	1,264.8
1985 .....	411.6	903.9	1,315.5
1986 .....	462.9	1,191.2	1,654.1
1987 .....	541.8	1,376.0	1,917.8
1988 .....	552.5	1,324.9	1,877.3
1989 .....	504.8	1,256.6	1,761.4
1990 .....	522.9	1,322.9	1,845.8

Expenditures*			
<u>Year</u>	<u>Tourists</u>	<u>Excursionists</u> (In millions)	<u>Total</u>
1982 .....	\$238.1	\$ 80.6	\$318.7
1983 .....	263.1	93.2	356.3
1984 .....	308.8	131.3	440.1
1985 .....	365.4	142.0	507.4
1986 .....	386.6	123.2	509.8
1987 .....	401.5	238.0	639.5
1988 .....	409.4	247.9	657.3
1989 .....	503.4	178.7	682.1
1990 .....	521.5	185.0	706.5

\*Source: Bureau of Economic Research.

## THE CO-OPERATIVE REPUBLIC OF GUYANA

### General

Guyana is located on the northeast coast of South America and is bordered by the Atlantic Ocean to the north, Venezuela to the northwest (404 miles of boundary), Suriname to the east (451 miles of boundary) and Brazil to the southwest and south (751 miles of boundary). Its Atlantic coastline is approximately 267 miles. Guyana covers an area of approximately 83,000 square miles.

The original area of Guyana, which includes present-day Suriname, French Guiana, Guyana and parts of Brazil and Venezuela, was ceded to the British by the Dutch in 1815. Although Guyana had been self-governed since 1961, Guyana remained a British colony until 1966 when it was granted independence. Guyana has a parliamentary government with legislative power exercised by a unicameral National Assembly. There are 53 elective seats filled no less frequently than every five years by proportional representation. An additional 12 members represent local and regional governments. The president holds executive power and leads the majority party in the National Assembly. The president appoints and leads a cabinet including a prime minister who acts as first vice president. Guyana is divided into ten regions, each having a regional democratic council which sends a representative to the National Assembly. The highest judicial bodies are the Court of Appeal and the High Court.

Guyana has been governed since 1968 by the People's National Congress political party (the "PNC"). Forbes Burnham of the PNC headed the government of Guyana from 1964 to 1985, first as prime minister, and, after the adoption of a new Constitution in 1980, as executive president. During the trend towards socialism in many Caribbean countries in the 1970s, the Government of Guyana nationalized major businesses in the country and, by the end of the 1970s, in excess of 80% of the economy was state-owned. Upon Burnham's death in 1985, Hugh Desmond Hoyte of the PNC, who was then prime minister (the second highest official in the Government), was elected president. National elections are required under Guyana's constitution to be held prior to the end of December 1991. The largest opposition party is believed to be the People's Progressive Party ("PPP"). The Company believes that the national elections will not have a material effect on the business of GT&T and that the PPP, if it comes to power, will not adopt investment and business policies materially different from those presently followed by the PNC. There can be no assurance, however, that any change in the government or any coalition government will not result in a change in existing arrangements which may affect GT&T or the imposition of investment and other policies which will be materially different from existing policies.

### Population and Income

According to the Overseas Private Investment Corporation Investor Information Service, the total population of Guyana has decreased from approximately 781,000 in 1975 to approximately 765,000 in 1990. A 1989 report submitted to the Government of Guyana by a Commonwealth Advisory Group indicates that emigration from Guyana at that time was estimated to occur at the rate of 1,000 persons per month or approximately 3% of the working age population per annum. Ninety percent of Guyana's population lives on the coastal plain where Georgetown, Guyana's national capital and major port, is located. According to OPIC, the country's estimated per capita income in 1989 was approximately \$409. Guyana's official language is English, and it is the only English-speaking nation in South America. Guyana has an estimated adult literacy rate of 91.3%.

### Economy

Guyana is currently in the process of changing the direction of its economy from a socialist system with nationalized industry to a market economy with private industry. In recent years, the country has encountered severe economic difficulties. It has been reported to have a foreign debt of approximately \$2 billion. Its gross national product in 1989 was estimated to be \$313 million. Much of Guyana's skilled labor force has left the country, and it is estimated that 25% of the population is underemployed or unemployed due to the fact that there are more unskilled individuals than there are jobs for unskilled labor. The country's infrastructure is inadequate and deteriorating, and shortages of machinery and

equipment as well as electricity blackouts are reported to be common. In addition, the exchange rate for the Guyanese dollar was, until February 1991, artificially set by the Government, although, since 1990, a legal cambio for the exchange of foreign currency was also in existence and offered significantly higher rates of exchange.

The present government, under Hugh Desmond Hoyte's leadership, has demonstrated a commitment to achieve economic growth and resolve external debt payment problems. In 1989, with the encouragement of a support group of donor countries which included the United States, Guyana adopted a set of policies approved by the International Monetary Fund (the "IMF"), which are designed to create a foundation for substantial growth by reducing trade and fiscal deficits and increasing investment. On June 15, 1990, Guyana announced that it had completed its negotiations with the IMF, the World Bank and the Caribbean Development Bank. Subsequently, in July 1991, the Government disclosed that, with the help of a support group of donor countries, its debts to these institutions were repaid, and the country now qualifies for new loans from such institutions to rehabilitate and revitalize its economy. Loans from the Inter-American Development Bank (the "IDB") never ceased to Guyana, and, recently, the private sector arm of the IDB, the International Finance Corporation, has begun lending funds to foreign and local investors in Guyana.

President Hoyte and his government have also taken other steps to revitalize the economy, including lifting most price controls and improving legislation affecting mining and oil exploration. The Government has also enacted tax reforms designed to promote exports and agricultural production in the private sector. In February 1991, the Government stopped artificially fixing the country's exchange rate for foreign currency, and, instead, the country's official exchange rate is now based on the floating rate established in the open market. The Government has also lifted restrictions on exchanging the Guyanese dollar for foreign currencies.

The economy has traditionally been dominated by agriculture and mining, with sugar, rice and bauxite accounting for more than 80% of Guyana's export earnings. According to an investment guide published by the Government of Guyana, in 1986, agriculture accounted for 27.5% of the gross domestic product (the "GDP"), mining for 6.4% of the GDP and service sectors for 66.1% of the GDP. Twenty-five percent of Guyana's labor force was employed in the agriculture sector, which accounted for over 40% of the country's foreign exchange earnings. Sugar is the country's main export crop and, in 1987, it accounted for approximately \$94.0 million in export earnings. The sugar industry is the largest single employer, employing over 27,000 employees. Rice is the second largest export crop and accounted for approximately \$84.0 million in 1987. Rice production decreased from 183,000 metric tons in 1986 to 146,000 metric tons in 1987 and again to an estimated 90,000 metric tons in 1988. Production increased in 1990, however, and the spring crop in 1991 was 67,000 tons, up 37% from the spring crop of 1990. Officials expect production for 1991 to reach 167,000 tons, 57% more than 1990.

The potential for exploitation of natural resources and contract manufacturing is great due to the abundance of minerals, timber and other products in Guyana. One of the country's major industries is the mining of bauxite; however, sales of bauxite declined during the 1980's. The forest area of Guyana, estimated at approximately 45 million acres, covers more than three-quarters of the land and contains over one hundred species of commercially usable timber. Exploration and exploitation of Guyana's forests have been minimal. Additional export earnings come from the exportation of shrimp, gold, diamonds, garments and certain locally assembled stoves and refrigerators.

Guyana is a member of a number of international institutions and is bound by treaty obligations to respect international norms and procedures. Among the international political organizations to which Guyana belongs are the United Nations, the Commonwealth, the Organization of American States and the Caribbean Community. The country enjoys duty free trade access for a number of its products to the European Community, the United States, Canada, Venezuela and the Caribbean Community Countries. In order to attract potential foreign investment, Guyana has become a beneficiary of the U.S. Caribbean Basin Initiative, a system which guarantees duty-free access for certain manufactured goods to the United States market. In addition, OPIC insurance is available for American investments.

The Government has begun to sell Government-owned corporations to foreign and domestic investors and to encourage both foreign and domestic private investment. While the agreement with the Company to privatize the phone system was one of the first agreements to sell an interest in a

nationalized company to a foreign investor, several other privatizations have occurred in the past two years, and large investments have been made or committed to revitalize Guyana's economy. The United States firm, Reynolds International, invested in the bauxite industry in 1989, and is also negotiating to purchase a mine which it owned before the mine was nationalized in the 1970s. The Government is also negotiating to privatize its sugar industry, and a major firm in that industry, Booker Tate, which owned most of Guyana's sugar plantations for more than three decades until 1974, has returned. Certain United States firms also have invested in the seafood and flour industries. The United States firm, Colgate-Palmolive, operates a small factory which manufactures toothpaste and detergent. Another United States firm, Seaboard Allied, operates a flour mill which supplies all of Guyana's wheat flour. In 1989, the Trinidadian firm, Colonial Life Insurance Company, made a multi-million dollar investment when it purchased assets of a government-owned logging company. The Japanese firm, Nisshan Suissan KK, purchased many of the assets of a government-owned fisheries company in 1990. Golden Star, a Canadian firm, has been constructing a gold mine, and four other companies are in the beginning stages of gold exploration. In 1990, gold production in Guyana reached 40,000 ounces, breaking a 49-year-old record. The Government of Guyana has also been negotiating with Leucadia Corp., a United States firm, for the sale of the country's electric utility.

### WITHHOLDING TAXES ON DIVIDENDS

Since the Company is a United States corporation, a foreign person receiving any dividends on the Common Stock of the Company (which are not effectively connected with a trade or business of such person in the United States) generally would be subject to a 30% (or lower applicable treaty rate) United States withholding tax. However, in 1992, any dividends paid by the Company would qualify for the limitation on U.S. withholding tax imposed by sections 871(i)(2)(B) and 881(d) of the Code, pursuant to which, in the case of a corporation whose gross income for the prior three-year "testing period" meets the 80% "active foreign business" requirement of section 861(c)(1), the percentage of dividends subject to withholding tax is limited to the percentage of gross income for such testing period which was not active foreign business income (as defined in that section). Accordingly, the Company anticipates that substantially less than 20% of any dividend paid by the Company in 1992 would be subject to U.S. withholding tax. While the Company anticipates that this limitation on U.S. withholding tax will continue to apply in subsequent years, there can be no assurance that this will be the case.

An individual who is a U.S. citizen (whether or not a resident of the U.S. Virgin Islands) is not a foreign person for U.S. withholding tax purposes. A U.S. Virgin Islands corporation which satisfies the requirements of section 881(b) of the Code or an individual who is not a U.S. citizen but is a bona fide resident of the U.S. Virgin Islands and fully satisfies the requirements of section 932(c)(4) of the Code will be eligible for exemption from any U.S. withholding tax on dividends received from the Company. Compliance with applicable filing or reporting requirements may be necessary to establish eligibility for such exemption.

The Company's dividends are not presently, and the Company does not expect any of its dividends to become, subject to U.S. Virgin Islands or Guyana withholding taxes.

## MANAGEMENT

### Directors and Executive Officers

Set forth below are the directors of the Company and the executive officers of the Company. Vitelco and GT&T as of the date hereof:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Cornelius B. Prior, Jr. ....	57	President and Co-Chief Executive Officer of the Company; Chairman of the Board of Vitelco; Director of the Company and GT&T
Jeffrey J. Prosser .....	35	Chairman of the Board and Co-Chief Executive Officer and Secretary of the Company; President and a Director of Vitelco; Director of GT&T
James J. Heying .....	37	Chief Financial Officer and Treasurer of the Company and Vitelco
James E. Kean .....	55	Executive Vice President—Operations of the Company; Director of GT&T; General Manager of GT&T
John P. Raynor .....	40	Director of the Company, Vitelco and GT&T
Jack W. Basford .....	63	Executive Vice President—Regulatory Affairs of Vitelco
Alphonso G. LaBorde, Jr. ...	52	Vice President—Data Processing of Vitelco
Sharon Smalls .....	44	Vice President—Human Resources of Vitelco
Gustave Gereau .....	63	Vice President—Quality Assurance of Vitelco
David L. Sharp .....	42	Vice President—St. Thomas Operations of Vitelco
Delbert Hewitt .....	42	Vice President—St. Croix Operations of Vitelco
Asim Saber .....	36	Vice President—Engineering of Vitelco
Michael Welch .....	48	Assistant General Manager—Administrative of GT&T
Clarence Hordatt .....	65	Assistant Deputy General Manager—Operations of GT&T
Chris Bryan .....	52	Assistant General Manager—Capital Projects of GT&T

The members of the Board of Directors of the Company are Messrs. Prior, Prosser and Raynor. Upon completion of this Offering, the Company intends to elect two additional persons, who will not be employees of the Company, to the Board of Directors of the Company. Directors of the Company hold office until their successors shall have been elected and qualified.

Mr. Prior has been Chairman of the Board of Vitelco and Co-Chief Executive Officer and President of the Company since June 1987, when the Company acquired Vitelco. From 1980 until June 1987, Mr. Prior was a managing director and stockholder of Kidder, Peabody & Co. Incorporated, where he directed the Telecommunications Finance Group. Mr. Prior obtained his A.B. from Holy Cross College in 1956, his LL.B. from Harvard in 1962 and was a Fulbright Scholar at the University of Sao Paulo Law School in Brazil the following year. He joined Sullivan & Cromwell as an associate attorney in 1963 and later became general counsel of the Private Investment Company for Asia before becoming an investment banker in 1971.

Mr. Prosser has been Chairman of the Board, Co-Chief Executive Officer and Secretary of the Company and President of Vitelco since June 1987. From 1980 until 1987, Mr. Prosser was a managing shareholder of Prosser & Prosser, P.C. ("Prosser & Prosser"), an accounting firm. As managing shareholder of Prosser & Prosser, he was responsible for overseeing the overall operations of the firm including the supervision of its audit, tax and management consulting engagements. Mr. Prosser joined the predecessor of Prosser & Prosser in 1974 after obtaining a Bachelor of Science degree in Business Administration from the University of Nebraska. Between the years of 1974 and 1980, Mr. Prosser held the positions of Intern Accountant, Staff Accountant, Senior Auditor and Manager at the predecessor of Prosser & Prosser.

Mr. Heying has been Chief Financial Officer and Treasurer of both the Company and Vitelco since January 1990. Previously, from 1981 until 1983, Mr. Heying was a staff accountant and a tax consultant at Touche Ross & Co. (a predecessor of Deloitte & Touche, an international accounting firm), and, from 1983 until 1989, was employed by Prosser & Prosser, P.C. as a manager and Certified Public Accountant. Mr. Heying also served as a financial advisor to the Company and Vitelco from 1987 until 1989. Mr. Heying obtained a Bachelor of Business Administration degree in accounting and a Master of Arts degree in accounting from the University of Iowa in 1979 and 1981, respectively.

Mr. Kean has been Executive Vice President—Operations of the Company since 1990 and General Manager of GT&T since the Company's acquisition of GT&T in January 1991. Previously, he served as Executive Vice President—Operations and Engineering of Vitelco from 1988 to 1990. Since joining Vitelco as a Central Office Engineer in 1968, Mr. Kean has held the positions of Engineering Manager (1970–1974), Director of Engineering (1974–1978), Vice President (1978–1987) and Executive Vice President—Operations and Engineering (1988–1990). Mr. Kean was an associate engineer with Western Electric prior to joining Vitelco.

Mr. Raynor has been a director of the Company and of Vitelco since June 1987, and a director of GT&T since January 28, 1991. From March 1, 1982 to March 31, 1987, Mr. Raynor was a partner of Schumacher & Gilroy, a law firm located in Omaha, Nebraska. Since April 1, 1987, Mr. Raynor has been a partner of Raynor, Rensch & Pfeiffer (or its predecessors), a law firm located in Omaha, Nebraska.

Mr. Basford has been Executive Vice President—Regulatory Affairs of Vitelco and Executive Vice President of ATN-VI since April 1989. Mr. Basford joined ITT in 1970 and was President of Vitelco from 1972 until the acquisition of Vitelco by the Company in June 1987, at which time he became a consultant to Vitelco and to ATN-VI. Prior to 1970, Mr. Basford was employed for more than twenty years by the Bell System.

Mr. LaBorde has been Vice President—Data Processing of Vitelco since 1990 and, prior thereto, served as Vice President—Human Resources of Vitelco since 1980. Mr. LaBorde joined Vitelco in 1970 when he became a Manager of Data Processing. Prior to joining Vitelco, Mr. LaBorde was a production manager for I. Shalom and Co. in New York, New York, and later served as an Assistant Director of Data Processing for the U.S. Virgin Islands government.

Ms. Smalls has been Vice President—Human Resources of Vitelco since May 1990. Previously, she was Director of Human Resources for the U.S. Virgin Islands Water and Power Authority from January 1984 to January 1989.

Mr. Gereau has been Vice President—Quality Assurance of Vitelco since June 1990. Previously, he served as Vice President—St. Croix Operations of Vitelco from 1989 to June 1990, and as Assistant Vice President of Vitelco from 1986 to 1989. Mr. Gereau has been affiliated with Vitelco for approximately twenty-five years, holding various technical and managerial positions.

Mr. Sharp has been Vice President—St. Thomas Operations of Vitelco since June 1990. Previously, he served as Assistant Vice President—Planning and Engineering of Vitelco from February 1989 to June 1990. Mr. Sharp joined Vitelco in November 1980 as a System Engineer and was promoted to Manager of Central Office Engineering in 1985 and to Director of Planning and Engineering in 1988. Prior to joining Vitelco, Mr. Sharp held a variety of engineering positions with General Dynamics Corporation.

Mr. Hewitt has been Vice President—St. Croix Operations of Vitelco since June 1990. Previously, he served as Construction Manager of Vitelco from 1987 to 1990 and as Commercial Manager of Vitelco from June 1986 to 1987.

Mr. Saber has been Vice President—Engineering of Vitelco since October 1990 and President of Vitelcom since December 1990. Previously, he served in management, engineering and marketing positions at Southwestern Bell Corp. from 1986 to 1990.

Mr. Welch has been Assistant General Manager—Administrative of GT&T since February 1991. Previously, he served as General Manager of GTC from January 1987 to January 28, 1991 and as Executive Director (Technical) of GTC from January 1986 to January 1987.

Mr. Hordatt has been Assistant Deputy General Manager—Operations of GT&T since May 1991. Previously, he served as chief executive officer of the Trinidad & Tobago Telephone Company from June 1986 to March 1990, and he has been a director of the Trinidad & Tobago Telephone Company since March 1990.

Mr. Bryan has been General Manager—Capital Projects of GT&T since February 1991. Previously, he served as Program Director and Director of Sales at Scientific Atlanta, Inc. from August 1985 to July 1987, Director of International Operations at E.T.S. Inc., a unit of Penn Central Corp., from August 1987 to September 1988 and Vice-President—International Operations at The TAS Corp. from October 1988 to October 1990.

The Board of Directors will establish an Audit Committee within 90 days after the completion of this Offering.

Directors who are not also employees of the Company or representatives of the Company's lenders are paid a fee of \$2,500 for each meeting attended.

The Company intends to maintain "key man" life insurance on the lives of Messrs. Prior and Prosser in the amounts of \$10,000,000 each, the proceeds of which may be used by the Company to fund purchases of Common Stock from the estate of either Mr. Prior or Mr. Prosser in the event of his death. See "The Selling Stockholders—Stockholders Agreement."

### Executive Compensation

The following table sets forth the cash compensation (including cash bonuses) paid by the Company and its subsidiaries for its fiscal year ended December 31, 1990 to each of the five most highly compensated executive officers and to all executive officers as a group:

<u>Name of Individual or Number in Group</u>	<u>Capacities in Which Served</u>	<u>Cash Compensation(1)</u>
Cornelius B. Prior, Jr. ....	President and Co-Chief Executive Officer of the Company; Chairman of the Board of Vitelco; Director of the Company and GT&T	\$ 355,769(2)
Jeffrey J. Prosser .....	Chairman of the Board, Co-Chief Executive Officer and Secretary of the Company; President and a Director of Vitelco; Director of GT&T	355,769(2)
Jack W. Basford .....	Executive Vice President— Regulatory Affairs of Vitelco and Executive Vice President of ATN-VI	131,175
James E. Kean .....	Executive Vice President— Operations of the Company; General Manager of GT&T	127,980
James J. Heying .....	Chief Financial Officer and Treasurer of the Company and Vitelco	106,802
All executive officers as a group (5 in number) .....		\$1,077,495

(1) The compensation described in this table does not include certain benefits received by officers of the Company from pension plans and other Company benefit programs, the value of which does not exceed the lesser of \$25,000 or 10% of any such officer's cash compensation; additional compensation for all executive officers as a group also does not exceed the lesser of \$25,000 times the number of such executive officers or 10% of such executive officers' aggregate cash compensation.

(2) Includes a cash bonus of \$100,000. Subsequent to this Offering, the cash compensation for Messrs. Prior and Prosser will be reduced to \$250,000 each. Thereafter, the compensation for Messrs. Prior and Prosser will be determined on an annual basis by the Board of Directors of the Company.

## Benefit Plans

**Management Employee Savings Plan.** The Company has adopted the Merrill Lynch Simplified 401(k) Profit Sharing Defined Contribution Plan and Trust prototype plan, which is a defined contribution plan under Section 401(k) of the Code (the "401(k) Plan") covering all of the employees of the Company and its subsidiaries, except GT&T, who are not members of a collective bargaining unit. Each participant in the 401(k) Plan may elect to make a salary reduction contribution by reducing his or her compensation by an amount which cannot exceed the greater of 16% of compensation or \$8,475 (indexed under the Code). The participant may also make additional contributions to the 401(k) Plan up to 10% of his or her compensation. The employer matches 50% of the participant's elective salary reduction contribution, up to a maximum of 6% of a participant's compensation.

Salary reduction contributions and additional participant contributions are allocated to accounts established under the 401(k) Plan for individual participants. Participants are fully vested at all times in these accounts. The employer's matching contributions made on behalf of a participant are allocated to separate employer matching contribution accounts. Participants vest in these accounts at the rate of 20% per year, commencing after one year of service and participants become 100% vested in the employer matching contribution accounts after completing 5 years of service.

Prior to terminating employment, participants may withdraw their salary deferral contributions upon attaining age 59-½ or a showing of hardship. Subject to certain legal and administrative restrictions, participants may borrow funds from the 401(k) Plan. During 1990, for the accounts of Messrs. Prior, Prosser, Basford, Kean and Heying, and the accounts of all executive officers of the Company as a group, the Company made contributions of \$3,985, \$0, \$0, \$3,985, \$0 and \$7,970, respectively.

**Defined Benefit Pension Plan and Trust Agreement.** The Company has a Defined Benefit Pension Plan and Trust Agreement (the "Pension Plan") which covers all employees of the Company and its subsidiaries, except GT&T, who are not members of a collective bargaining unit and who have attained age 21 and have completed one year of service. Pension costs are borne by the Company and determined annually on an actuarial basis, with contributions made accordingly. Estimated annual benefit levels under the Pension Plan, before any Social Security offset, based on earnings and years of service at retirement, are as follows:

Pension Earnings	Years of Service at Retirement				
	15	20	25	30	35
125,000 .....	\$37,500	\$50,000	\$ 62,500	\$ 71,875	\$ 81,250
150,000 .....	45,000	60,000	75,000	86,250	97,500
175,000 .....	52,500	70,000	87,500	100,625	113,750(1)
200,000 .....	60,000	80,000	100,000	115,000	130,000(1)
225,000(2) .....	67,500	90,000	112,500	129,375	146,250(1)

(1) These are hypothetical limits based on the Pension Plan's benefit formula. The maximum annual benefit permitted under Section 415 of the Code in 1990 was \$102,582. The \$102,582 ceiling has been raised to \$108,963 for 1991 and will be adjusted to reflect cost of living increases in 1992 and succeeding years.

(2) The benefits shown corresponding to the compensation ranges are hypothetical benefits based upon the Pension Plan's normal retirement benefit formula. Under Section 401(a)(17) of the Code, a participant's compensation in excess of \$200,000 (as adjusted to reflect cost of living increases) is disregarded for purposes of determining compensation in plan years beginning on or after 1989. The \$200,000 limit was increased to \$209,200 in 1990 and to \$222,220 in 1991, and will be adjusted for cost of living increases in 1992 and succeeding years.

Benefit accruals under the Pension Plan are based on the gross amount of earnings, including overtime pay, but excluding bonuses and commissions, or added compensation of any kind or nature ("Compensation"). Average Compensation is defined as the highest average of the participant's compensation over the period of five years during the participant's last 10 years of service. The formula for the retirement benefit payable under the Pension Plan for retirement at age 65 is equal to 2% of the participant's Average Compensation for the first 25 years of plan participation, plus 1-½% of the participant's Average Compensation for the next 15 years of plan participation. From such sum there is deducted an amount equal to 1-¼% of the participant's primary Social Security benefit for each year of Pension Plan participation up to 40 years. Participants who have attained age 55 with at least 10 years

of service may retire early and receive a corresponding reduction in their normal retirement benefit. There are provisions for payments upon death or disability of participants. Participants vest in their accrued benefits after five years of service. In the event that the benefits provided under the Pension Plan exceed the limitations set forth in the Code, the applicable limitations are imposed. In light of the changes made to the Code in 1986, the benefit formula under the Pension Plan will be amended. The Company has decided to change the formula to 1.4% of the participant's average annual Compensation plus .4% of the participant's average annual Compensation in excess of covered Compensation for each year of participation up to thirty-five years of service. For Messrs. Prior, Prosser, Basford and Kean, their benefit formula was frozen as of January 1, 1989 and the new benefit formula will be effective, once adopted, as of January 1, 1989. For the other Pension Plan participants, the current benefit formula remains in effect until the adoption of the new benefit formula. The Company intends to adopt the new formula before December 31, 1991. It is expected that this change in the benefit formula will not result in any additional cost to the Company.

Prior to June 24, 1987, Vitelco was owned by ITT. With respect to participants in the Pension Plan who participated in the Retirement Plan for Salaried Employees of ITT (the "ITT Plan") prior to the acquisition of Vitelco by ATN-VI, such participants' credited years of service under the ITT Plan are included in calculating their years of service under the Pension Plan. However, benefits payable to such participants under the Pension Plan are offset by the accrued benefits payable under the terms of the ITT Plan. Messrs. Basford and Heying did not participate in the Pension Plan in 1990. As of September 1991, Messrs. Prior, Prosser and Kean had four, four and twenty-three years of credited service under the Pension Plan, respectively, for the purpose of calculating annual retirement benefits under the Pension Plan. Messrs. Prior and Prosser are entitled, under employment agreements with ATN-VI in effect from June 1987 to June 1990, to supplemental annual pension benefits equal to the difference between the amount, if any, which they actually receive under the Pension Plan and the amount which they would have received, under the Pension Plan benefit formula currently in effect as described above, had all compensation paid to them by the Company or any of its subsidiaries been considered Compensation for purposes of the Pension Plan and, in Mr. Prior's case, had he been an employee covered by the Pension Plan since June 1982. These supplemental pension benefits are fully vested.

*Company Employees' Stock Ownership Plan.* The Company has adopted the Atlantic Tele-  
Network, Inc. Employees' Stock Ownership Plan and a related trust (collectively, the "ESOP") to provide a means for employees to participate in the ownership of the Company. The ESOP is intended to be qualified under Section 401(a) of the Code and as described in Section 4975(e)(7) of the Code. All non-craft salaried and hourly employees of the Company and its participating affiliates who are not members of a collective bargaining unit and who have attained age 21 and completed one year of service are eligible to participate in the ESOP.

The Company will make discretionary contributions to the ESOP in the form of Company stock (or cash which is used to acquire stock of the Company, either on the open market or directly from the Company). The ESOP is permitted to borrow money to purchase Company stock, although such borrowing is not currently contemplated. In the event that the ESOP does effect such borrowing, the Company is obligated to make minimum annual contributions sufficient to amortize the debt over its term. The shares acquired are allocated to the separate accounts of plan participants based on relative compensation, subject to certain limitations imposed by the Code. ESOP participants become fully vested in their accounts after the earliest to occur of attainment of age 65, death or upon the completion of three years of service.

As long as the Company's shares are subject to registration under the Securities Exchange Act of 1934, each employee has full voting rights with respect to all shares of stock allocated to his account. To the extent that shares are not so registered, the trustee will vote such shares as it is instructed by the ESOP's administrative committee; however, in the event of a stockholder vote in conjunction with any corporate merger, consolidation, recapitalization, reclassification, liquidation, dissolution, sale of substantially all assets or similar event, each participant is entitled to instruct the trustee as to the manner in which the shares of stock allocated to such participant's account will be voted. To the extent that shares are not allocated to the accounts of participants, the trustee shall vote such shares in the same proportion as it votes allocated shares.

Employees who satisfy certain eligibility conditions and who are approaching retirement age have the option to direct the trustee to diversify their accounts by investing in other than Company stock. In addition, participants may borrow limited sums of money from the ESOP or may request early withdrawals on a showing of "hardship". The ESOP generally provides for the distribution of a participant's vested account balance upon the termination of his employment with the Company.

The Company anticipates that contributions not exceeding \$500,000 will be made to the ESOP for the 1991 plan year. No determination has been made as to whether such contributions will be made in cash or in stock.

It is anticipated that a GT&T pension plan will be adopted within the next six months.

### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

On June 24, 1987, the date on which the Company acquired Vitelco and commenced operations, the Selling Stockholders each invested \$475 for stock of the Company and loaned \$500,000 to the Company in connection with the acquisition of Vitelco at an interest rate of 9% per annum. Such loans were repaid in part in January 1989 with proceeds from a \$4 million loan from the ITT Corporation (the "ITT Loan") and the remainder of these loans were repaid in December 1989 from general funds of the Company.

In connection with the acquisition of Vitelco in June 1987 and as part of a settlement of certain disputes between the Company and Shearson Lehman Hutton Inc., a Delaware corporation and the successor to Hutton Group ("Shearson") relating to fees and other matters, the Selling Stockholders, Hutton LBO and Shearson entered into an option agreement in May 1988, pursuant to which Hutton LBO granted the Selling Stockholders an option to purchase the common stock of ATN-VI owned by Hutton LBO (which represented a 45% minority interest, subject to possible reduction if certain earnings targets were met, in ATN-VI, which was then the sole directly-owned subsidiary of the Company and which, in turn, owned all of the outstanding capital stock of Vitelco) for \$3 million, plus interest thereon at 10% per annum from April 1, 1988 to the date of purchase. In consideration for the option, the Selling Stockholders agreed, among other things, (i) that Hutton LBO would continue to have the right to designate two members of the board of directors of ATN-VI and three members of the board of directors of Vitelco and (ii) to cause ATN-VI and Vitelco to pay to Hutton approximately \$2 million in disputed fees. In January 1989, the Selling Stockholders assigned the option to the Company, which purchased the Hutton LBO stock from Shearson on January 13, 1989 for \$3 million plus accrued interest of approximately \$236,000 thereon. This acquisition was financed with a portion of the proceeds of the ITT Loan. As a result of such purchase, the Company became the sole stockholder of ATN-VI.

Each Selling Stockholder has pledged to the RTFC approximately 90% of his shares of Common Stock as security for the Company RTFC Loan. Upon the consummation of this Offering and the repayment of the Company RTFC Loan, the pledge will cease to exist. See "Use of Proceeds."

Pursuant to the ATN-VI/RTFC Loan and the Vitelco/RTFC Loan, two designees of the RTFC serve on the boards of directors of ATN-VI and Vitelco. Pursuant to the GT&T Equipment Loan, a designee of NTIF serves on the board of directors of GT&T. See "Use of Proceeds."

Raynor, Rensch & Pfeiffer has from time to time performed legal services for the Company, for which it has received its customary fees. John P. Raynor, a member of such firm, has served as a director of the Company, ATN-VI and Vitelco since June 25, 1987 and as a director of GT&T since February 1991. Prosser & Prosser has from time to time performed accounting services for the Company for which it has received its customary fees. Jeffrey J. Prosser, who was a shareholder of such firm until July 1988, has served as Chairman of the Board and Co-Chief Executive Officer of the Company and President of Vitelco since June 25, 1987. The Company and its subsidiaries paid Prosser & Prosser fees in the aggregate amount of \$232,684 in 1988.

## THE SELLING STOCKHOLDERS

The following table sets forth certain information, as of the time immediately prior to this Offering, and as adjusted to reflect the sale of the shares offered hereby, with respect to the beneficial ownership of shares of Common Stock by each Selling Stockholder:

<u>Name and Address</u>	<u>Beneficial Ownership Immediately Prior to Offering(1)</u>		<u>Shares Being Offered</u>	<u>Beneficial Ownership After Offering(1)(2)</u>	
	<u>Number</u>	<u>Percent</u>		<u>Number</u>	<u>Percent</u>
Cornelius B. Prior, Jr. .... 48A Kronprindsens Gade Charlotte Amalie St. Thomas U.S. Virgin Islands 00801	3,750,000	50%	125,000	3,625,000	32.2%
Jeffrey J. Prosser ..... 48A Kronprindsens Gade Charlotte Amalie St. Thomas U.S. Virgin Islands 00801	3,750,000	50%	125,000	3,625,000	32.2%

(1) Each Selling Stockholder has sole voting power and investment power with respect to shares beneficially owned by him, subject to the provisions of the Stockholders Agreement described below.

(2) Assumes that the Underwriters' over-allotment option is not exercised.

### Stockholders Agreement

The Company and the Selling Stockholders are parties to a Stockholders Agreement, certain provisions of which are summarized below. Such summary does not purport to be complete and is qualified in its entirety by reference to the Stockholders Agreement, a copy of which has been filed as an exhibit to the Registration Statement of which this Prospectus is a part.

The Stockholders Agreement provides that the Selling Stockholders shall have the right to establish the number of members of the Boards of Directors of the Company and each of its subsidiaries. Each of the Selling Stockholders has the right to nominate an equal number of members of the Boards of Directors of the Company and each of its subsidiaries. Each Selling Stockholder has agreed to vote for the other Selling Stockholder's nominees to the Boards of Directors of the Company and each of the subsidiaries. Such Boards of Directors may also include other members appointed pursuant to agreements with minority stockholders in a subsidiary or agreements with creditors and other members appointed by mutual agreement of the Selling Stockholders. Notwithstanding that the Board of Directors of a subsidiary of the Company may have a director not nominated by the Selling Stockholders, the Selling Stockholders have agreed that they will not permit the Boards of Directors of any of the Company's subsidiaries or the management of the Company or any of its subsidiaries to take certain significant actions without the review and consent of the Selling Stockholders.

The Stockholders Agreement contains certain rights of first refusal requiring either Mr. Prior or Mr. Prosser, in the event either wishes to sell his shares of Common Stock, to offer such shares to the Company (at the same price and upon identical terms as the proposed sale), and, if the Company declines to purchase such shares, to the other (at the same price and upon identical terms as the proposed sale). In addition, each of them has the option to participate proportionately in any sale of Common Stock to a third party. These provisions do not apply to transfers by Messrs. Prior or Prosser to certain members of their immediate families or to sales by them in broker transactions in compliance with Rule 144 promulgated under the Act or sales by them made pursuant to an effective registration statement under the Act.

Upon the death, permanent disability or mental incompetence of either of the Selling Stockholders, the Company shall have the option for a period of 30 days to purchase any or all of the shares of Common Stock held by such Selling Stockholder, and upon the expiration of such 30-day period, the other Stockholder shall have the option for 30 days to purchase the remaining shares of Common Stock held by the Selling Stockholder. Together, the Company and the other Stockholder

must purchase not less than all of the shares subject to the option in order to exercise the option. The Stockholder exercising the option or the Company must name a price per share at which it will purchase the Selling Stockholder's shares. If the Selling Stockholder or personal representative does not accept the price, fair market value of the shares will be determined by an independent valuation consultant or appraiser.

In the event of an involuntary transfer of the Common Stock of the Company by a Selling Stockholder, the Company and the other Selling Stockholder have exclusive options to repurchase all of the shares which have been involuntarily transferred at a purchase price determined in the same manner as the process described above for death, permanent disability or mental incompetence of a Selling Stockholder.

Each Selling Stockholder has the right, subject to certain conditions, to require the Company to file one registration statement for the sale by the Selling Stockholders in a public offering of shares of the Company's capital stock. Each of the Selling Stockholders has certain rights to include its shares of Common Stock in a registration requested by the other and certain registrations initiated by the Company. In connection with any such registration, the Company will indemnify them against certain liabilities, including liabilities under the Act. The Company will bear certain of the expenses incurred in connection with any such registration.

### **CAPITAL STOCK**

The Company's authorized capital stock consists of 20,000,000 shares of Common Stock, par value \$.01 per share, of which 7,500,000 shares are issued and outstanding and 11,250,000 shares will be issued and outstanding upon completion of this Offering (assuming that the Underwriter's over-allotment option is not exercised), and 10,000,000 shares of Preferred Stock, par value \$.01 per share ("Preferred Stock"), none of which is issued and outstanding.

#### **Common Stock**

All outstanding shares of the Company's Common Stock are, and the shares offered hereby by the Company will be when issued and sold, fully paid and nonassessable. Each outstanding share is entitled to one vote on all matters submitted to a vote of stockholders. There are no cumulative voting rights, meaning that the holders of a majority of the shares (e.g., the Selling Stockholders) voting for the election of directors can elect all the directors if they choose to do so. Subject to the preferential rights of any outstanding series of Preferred Stock, the holders of Common Stock will be entitled to such dividends as may be declared from time to time by the Board of Directors from funds legally available therefor, and will be entitled to receive pro rata all assets of the Company upon the liquidation, dissolution or winding up of the Company. Holders of Common Stock have no redemption, conversion or preemptive rights to purchase or subscribe for securities of the Company. After the sale of shares offered hereby, the Selling Stockholders will continue to hold 7,250,000 shares of Common Stock (assuming that the Underwriters' over-allotment option is not exercised) representing approximately 64% of the then-outstanding shares. So long as the Selling Stockholders continue to own in the aggregate more than 50% of the Company's outstanding shares of Common Stock, they will collectively have the power to amend the Company's Certificate of Incorporation, elect all of the directors and effect fundamental corporate transactions such as mergers, asset sales and the sale of the Company without the approval of any other stockholder. See "Management" and "The Selling Stockholders."

#### **Preferred Stock**

The Company's Board of Directors is authorized to divide the Preferred Stock into series and, with respect to each series, to determine the dividend rights, dividend rate, conversion rights, voting rights, redemption rights and terms, liquidation preferences, sinking fund provisions, the number of shares constituting the series and the designation of such series. The Board of Directors could, without stockholder approval, issue Preferred Stock with voting rights and other rights that could adversely affect the voting power of holders of Common Stock and could be used to prevent a hostile takeover of the Company. The Company has no present plans to issue any shares of Preferred Stock.

### **Delaware Law and Certain Charter and By-law Provisions**

Upon completion of this Offering, the Company will be subject to Section 203 of the Delaware General Corporation Law (the "DGCL"), which prohibits a Delaware corporation, such as the Company, from engaging in a wide range of specified transactions with any person who, after this Offering, becomes an interested stockholder (defined to include, among others, any person or entity who obtains 15% or more of any class of series of stock entitled to vote in the election of directors), within three years after such person became an interested stockholder unless, among other exceptions, the transaction is approved by (i) the Board of Directors prior to the date the interested stockholder obtained such shares or (ii) the Board of Directors and the holders of two-thirds of the outstanding shares of voting stock not owned by the interested stockholder.

### **Limitation of Liability and Indemnification of Directors and Officers**

The Company's Certificate of Incorporation limits the liability of directors to the maximum extent permitted by Delaware law as currently or hereafter in effect. Delaware law provides that directors of a company will not be personally liable for monetary damages for breach of their fiduciary duty as a director, except for liability (i) for breach of their duty of loyalty to the Company or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) for unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the DGCL; or (iv) for any transaction from which the director derives an improper personal benefit.

The Company's by-laws provide for the indemnification of directors and officers of the Company. The Company has entered into agreements to indemnify its directors and officers in addition to the indemnification provided for in the by-laws. These agreements, among other things, indemnify the Company's directors and officers for certain expenses (including attorney's fees), judgments, fines and settlement amounts incurred by such person in any action or proceeding, including any action by or in the right of the Company, on account of services as a director or officer of the Company or as a director or officer of any subsidiary of the Company, or as a director or officer of any other company or enterprise to which the person provides services at the request of the Company. There is no pending litigation or proceeding involving a director, officer, employee or other agent of the Company as to which indemnification is being sought, and the Company is not aware of any pending or threatened litigation that may result in claims for indemnification by a director, officer, employee or other agent.

### **Reports to Stockholders**

The Company will furnish to its stockholders annual reports containing consolidated financial statements audited by independent public accountants and quarterly reports for the first three quarters of each fiscal year containing unaudited consolidated financial information.

### **Transfer Agent**

The transfer agent for the Common Stock is The Bank of New York.

### **Shares Eligible for Future Sale**

Upon completion of this Offering, the Company will have 11,250,000 shares of Common Stock outstanding (assuming that the Underwriters' over-allotment option is not exercised). Of these shares, the 4,000,000 shares sold in this Offering will be freely tradable without restriction or further registration under the Act, except to the extent purchased by "affiliates" of the Company, as that term is defined in Rule 144 adopted under the Act. The remaining 7,250,000 shares held by the Selling Stockholders may be sold under Rule 144 as currently in effect in "brokers" transactions to market makers, within any three-month period, provided that the number of those shares does not exceed the greater of 1% of the shares of Common Stock then outstanding or the average weekly trading volume of the Common Stock on any national securities exchange and/or the over-the-counter market during the four calendar weeks preceding the filing of the notice required by Rule 144 or, if no such notice is

required, during the four calendar weeks preceding the date of receipt by a broker of the order to execute the transaction or the date of execution of such transaction directly with a market maker. Sales under Rule 144 are also generally subject to other requirements, including the availability of current public information about the Company. If either of the Selling Stockholders were to cease to be an affiliate of the Company, commencing three months thereafter, his shares could be sold under Rule 144(k) without regard to the volume limitations or manner of sale restrictions. The foregoing summary of Rule 144 is not intended to be a complete description thereof. The Selling Stockholders may also sell their shares pursuant to a registration statement filed under the Act or pursuant to another exemption from registration.

The Company and the Selling Stockholders have agreed that, for a period of 180 days after the date of this Offering, they will not, directly or indirectly, without the prior written consent of the Representatives, offer, sell or otherwise dispose of any shares of Common Stock or any securities convertible into or exchangeable for, or any rights to purchase or acquire any shares of, Common Stock. See "Underwriting." For a description of the Selling Stockholders' registration rights, see "The Selling Stockholders—Stockholders Agreement."

Prior to this Offering, there has been no market for the Common Stock of the Company and no predictions can be made as to the effect, if any, that sales of shares of Common Stock or the availability of shares of Common Stock for sale will have on the market price prevailing from time to time. However, sales by the Selling Stockholders of substantial amounts of Common Stock of the Company in the open market could adversely affect prevailing market prices of the Common Stock.

## UNDERWRITING

The Underwriters named below have severally agreed, subject to the terms and conditions of the Underwriting Agreement, to purchase from the Company and the Selling Stockholders the number of shares of Common Stock set forth opposite their names below.

<u>Underwriter</u>	<u>Number of Shares</u>
Kidder, Peabody & Co. Incorporated .....	
Kemper Securities Group, Inc. ....	
Total .....	<u>4,000,000</u>

The Underwriting Agreement provides that the Underwriters are obligated to purchase all of the shares of Common Stock offered hereby (other than such shares covered by the over-allotment option described below), if any are purchased.

The Company and the Selling Stockholders have been advised by Kidder, Peabody & Co. Incorporated and Kemper Securities Group, Inc., the Representatives of the several Underwriters, that the Underwriters propose to offer the Common Stock to the public at the offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of \$        per share, and that the Underwriters may allow, and such dealers may reallow, a discount of not in excess of \$        per share to other dealers. The public offering price and the concession and discount to dealers may be changed by the Representatives after the initial public offering.

The Company and the Selling Stockholders have granted the Underwriters an option, expiring at the close of business on the thirtieth day subsequent to the date of the initial public offering, to purchase up to an additional 600,000 shares of Common Stock, pro rata, at the initial public offering price, less the underwriting discount set forth on the cover page of this Prospectus. The Underwriters may exercise such option solely to cover over-allotments, if any, in the sale of shares.

The Company and the Selling Stockholders have agreed, jointly and severally, to indemnify the Underwriters against certain liabilities, including liabilities under the Act.

The Company and the Selling Stockholders have agreed that they will not, directly or indirectly, offer, sell or otherwise dispose of any shares of Common Stock or any securities convertible into or exchangeable for, or any rights to purchase or acquire, any shares of Common Stock for a period of 180 days after the date of this Offering, without the prior written consent of the Representatives of the Underwriters.

Prior to this Offering, there has been no public market for the Common Stock. The initial public offering price for the Common Stock will be determined by negotiation between the Company, the Selling Stockholders and the Representatives of the Underwriters. The factors to be considered in determining the initial public offering price include the history of and the prospects for the Company and the industry in which it operates, the past and present operating results of the Company and the trends of such results, the future prospects of the Company, an assessment of the Company's management, the general condition of the securities markets at the time of the offering and the prices for similar securities of comparable companies.

The Representatives of the Underwriters have informed the Company that the Underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

## LEGAL MATTERS

The validity of the shares of Common Stock offered by the Company and the Selling Stockholders hereby will be passed upon for the Company by Fried, Frank, Harris, Shriver & Jacobson (a partnership including professional corporations), One New York Plaza, New York, New York 10004. Lewis A. Stern, whose professional corporation is a member of Fried, Frank, Harris, Shriver & Jacobson, was a director of the Company from mid-1987 until September 25, 1991, and is a director of ATN-VI, Vitelco and GT&T. Cahill Gordon & Reindel (a partnership including a professional corporation), 80 Pine Street, New York, New York 10005 has acted as counsel to the Underwriters in connection with this Offering and will pass upon certain legal matters relating hereto.

Reed Smith Shaw & McClay, 1200 18th Street, N.W., Washington, DC 20036, has acted as special telecommunications counsel to the Company in connection with this Offering and will pass upon certain telecommunications matters subject to the jurisdiction of the Federal Communications Commission or the Virgin Islands Public Services Commission.

Hodge & Sheen, P.C., 35 King Street, Christiansted, St. Croix, U.S. Virgin Islands 00820, has acted as special U.S. Virgin Islands counsel to the Company in connection with this Offering and will pass upon certain matters concerning U.S. Virgin Islands law.

Sanders and Associates, 1020 Grenon Avenue, Ottawa, Ontario, Canada K2B 8L8 has acted as special Guyanese counsel to the Company in connection with this Offering and will pass upon certain matters concerning Guyanese law.

## EXPERTS

The consolidated balance sheets of the Company as of December 31, 1990 and 1989 and the related consolidated statements of operations, stockholders' equity and cash flows and schedules for the three years then ended included in this Prospectus and elsewhere in the Registration Statement have been audited by Deloitte & Touche, certified public accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said report. The balance sheet of GTC as of December 31, 1990 and 1989 and the related statements of income and retained earnings and source and application of funds statements for the years ended December 31, 1990, 1989 and 1988 included in this Prospectus and elsewhere in the Registration Statement have been audited by Deloitte & Touche, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

On November 14, 1988, the Company engaged Deloitte & Touche as the principal independent accountant for the Company and its subsidiaries. Prior to the engagement of Deloitte & Touche, Arthur Andersen & Co. had served as the principal accountant for the Company and its subsidiaries. The recommendation to change accountants was made by management of the Company and was approved by the Board of Directors of the Company. In connection with the two fiscal years preceding the action by the Board of Directors of the Company, there were no disagreements with Arthur Andersen & Co. on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to their satisfaction would have caused them to make reference in their opinion to the subject matter of the disagreements. Arthur Andersen & Co.'s reports on the financial statements of the Company for either of such two years did not contain an adverse opinion or disclaimer of opinion, nor were such reports modified in any respect.

### **ADDITIONAL INFORMATION**

The Company has filed with the Commission in Washington, D.C. a Registration Statement under the Act, with respect to the Common Stock offered hereby. This Prospectus does not contain all of the information set forth in that Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and its Common Stock, reference is hereby made to such Registration Statement, exhibits and schedules. Statements contained herein concerning the provisions of documents are necessarily summaries of such documents, and each such statement is qualified in its entirety by reference to the copy of the applicable document filed with the Commission. The Registration Statement and the exhibits and schedules thereto may be examined at the public reference facilities of the Commission's office at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 upon payment of the stipulated charge.

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## INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
Atlantic Tele-Network, Inc. and subsidiaries:	
Independent Auditors' Report .....	F-2
Consolidated Balance Sheets .....	F-3
Consolidated Statements of Operations .....	F-4
Consolidated Statements of Stockholders' Equity .....	F-5
Consolidated Statements of Cash Flows .....	F-6
Notes to Consolidated Financial Statements .....	F-7
Guyana Telecommunication Corporation:	
Report of Auditors .....	F-20
Balance Sheets .....	F-21
Statements of Income and Retained Earnings .....	F-22
Statements of Source and Application of Funds .....	F-23
Notes on the Accounts .....	F-24

## INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders  
ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

We have audited the accompanying consolidated balance sheets of Atlantic Tele-Network Inc. and subsidiaries as of December 31, 1990 and 1989, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Atlantic Tele-Network, Inc. and subsidiaries as of December 31, 1990 and 1989, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1990, in conformity with generally accepted accounting principles.

Omaha, Nebraska

March 19, 1991, except for notes C, D, I,  
L and M, for which the date is September , 1991

The accompanying financial statements give effect to the consummation of the stock split which is expected to take place prior to the effective date of the proposed offering of securities. The above report is in the form which will be furnished by Deloitte & Touche upon the consummation of the stock split described in Note M to the financial statements.

DELOITTE & TOUCHE

Omaha, Nebraska  
September 26, 1991

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,		June 30,
	1989	1990	1991
	(Unaudited)		
	(Columnar amounts in thousands)		
ASSETS (Note I)			
Current assets:			
Cash.....	\$ 965	\$ 5,195	\$ 4,466
Accounts receivable (Note E) .....	7,929	11,484	20,699
Receivable from insurance company (Note D) .....	21,250	9,879	9,879
Materials and supplies .....	3,447	7,993	7,857
Prepayments .....	1,195	1,299	2,381
Total current assets .....	34,786	35,850	45,282
Fixed assets:			
Property, plant and equipment (Note F) .....	99,391	146,619	178,454
Less accumulated depreciation .....	(37,004)	(43,755)	(48,705)
Franchise rights and cost in excess of underlying book value, less accumulated amortization of \$2,581,000, \$3,512,000 and \$4,029,000 .....	34,765	33,833	45,756
Net fixed assets .....	97,152	136,697	175,505
Fixed assets of discontinued operations (Note C) .....	—	2,898	1,700
Debt issuance costs .....	3,538	3,585	4,889
Other assets (Notes G and I) .....	10,830	14,590	12,660
	<u>\$146,306</u>	<u>\$193,620</u>	<u>\$240,036</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Notes payable (Note H) .....	\$ 10,807	\$ 12,451	\$ 11,091
Accounts payable .....	13,153	15,163	15,354
Accrued taxes (Note J) .....	3,210	3,502	5,631
Advance payments and deposits .....	1,251	1,707	1,832
Other current liabilities .....	3,211	4,836	7,470
Current portion of long-term debt (Note I) .....	4,622	5,982	6,930
Total current liabilities .....	36,254	43,641	48,308
Deferred credits (Note J):			
Investment tax credits .....	2,336	1,976	1,796
Deferred income taxes .....	12,426	10,653	10,513
Total deferred credits .....	14,762	12,629	12,309
Long-term debt, excluding current portion (Note I) .....	85,565	128,895	166,594
Other long-term liabilities (Note K) .....	802	1,374	1,430
Minority interest .....	—	62	4,601
Contingencies and commitments (Notes B, C, D, K and L) .....			
Stockholders' equity (Notes I and M):			
Preferred stock, par value \$.01 per share; 10,000,000 shares authorized; none issued and outstanding .....	—	—	—
Common stock, par value \$.01 per share; 20,000,000 shares authorized and 7,500,000 shares issued and outstanding ...	1	1	75
Retained earnings .....	8,922	7,018	6,719
Total stockholders' equity .....	8,923	7,019	6,794
	<u>\$146,306</u>	<u>\$193,620</u>	<u>\$240,036</u>

See notes to Consolidated Financial Statements.

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,			Six Months Ended June 30,	
	1988	1989	1990	1990	1991
	(Unaudited)				
	(Columnar amounts in thousands except per share amounts)				
Telephone operations:					
Revenues:					
Local exchange service .....	\$19,230	\$16,535	\$19,141	\$ 7,451	\$10,901
Access charges (Note L) .....	12,801	16,889	16,718	7,730	8,132
International long-distance revenues .....	—	—	—	—	8,319
Universal Service Fund .....	1,847	2,903	3,191	1,595	1,554
Billing and other revenues .....	12,449	7,006	7,953	3,832	4,686
Directory advertising .....	1,956	2,335	2,701	1,469	1,669
Business interruption claim (Note D) .....	—	3,570	1,060	1,060	—
Total revenues .....	48,283	49,238	50,764	23,137	35,261
Expenses:					
Plant specific operations .....	7,887	6,692	9,109	2,539	4,919
Plant nonspecific operations .....	10,341	12,623	9,877	4,353	5,726
Customer operations .....	3,805	3,972	4,199	1,914	2,325
Corporate operations .....	6,225	6,765	8,963	4,211	4,810
International long-distance expenses .....	—	—	—	—	3,010
Taxes other than income .....	2,169	2,571	2,517	1,183	1,310
Total expenses .....	30,427	32,623	34,665	14,200	22,100
Income from telephone operations .....	17,856	16,615	16,099	8,937	13,161
Other operations:					
Revenues:					
Long distance and cellular services .....	—	878	4,122	2,082	2,355
Product sales and rentals .....	3,577	3,514	3,706	1,657	1,870
Business interruption claim (Note D) .....	—	310	98	98	—
Total revenues .....	3,577	4,702	7,926	3,837	4,225
Expenses of other operations .....	3,276	4,133	6,767	2,985	3,899
Income from other operations .....	301	569	1,159	852	326
Non-operating revenues and expenses:					
Interest expense (Note I) .....	(7,661)	(9,918)	(10,302)	(4,882)	(6,320)
Interest income .....	—	223	70	35	79
Gain on sale of subsidiary stock .....	—	—	1,361	—	—
Other revenues and expenses .....	(2,269)	(1,787)	(1,691)	(369)	(981)
Non-operating revenues and expenses, net .....	(9,930)	(11,482)	(10,562)	(5,216)	(7,222)
Income from continuing operations before income taxes and minority interest .....	8,227	5,702	6,696	4,573	6,265
Income taxes (Note J) .....	2,800	2,818	2,469	1,797	3,187
Income from continuing operations before minority interest .....	5,427	2,884	4,227	2,776	3,078
Minority interest .....	(2,483)	—	7	—	(414)
Income from continuing operations .....	2,944	2,884	4,234	2,776	2,664
Discontinued operations (Note C):					
Operating losses, net of income tax benefit of \$2,753,000 and \$360,000 .....	—	—	(6,138)	—	(2,279)
Provision for loss on disposal, including provision of \$1,099,000 for operating losses during phase-out period .....	—	—	—	—	(610)
	—	—	(6,138)	—	(2,889)
Net income (loss) .....	\$ 2,944	\$ 2,884	(\$ 1,904)	\$ 2,776	(\$ 225)
Income per share from continuing operations (Note M) .....	\$ .39	\$ .38	\$ .56	\$ .37	\$ .36
Net income (loss) per share (Note M) .....	\$ .39	\$ .38	\$ (.25)	\$ .37	\$ (.03)
Weighted average shares outstanding (Note M) .....	7,500	7,500	7,500	7,500	7,500

See notes to Consolidated Financial Statements.

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total Stockholders' Equity</u>
	(Columnar amounts in thousands)		
Balance, January 1, 1988 .....	\$ 1	\$3,094	\$3,095
Net income .....	<u>—</u>	<u>2,944</u>	<u>2,944</u>
Balance, December 31, 1988 .....	1	6,038	6,039
Net income .....	<u>—</u>	<u>2,884</u>	<u>2,884</u>
Balance, December 31, 1989 .....	1	8,922	8,923
Net loss .....	<u>—</u>	<u>(1,904)</u>	<u>(1,904)</u>
Balance, December 31, 1990 .....	1	7,018	7,019
Net loss (unaudited) .....	<u>—</u>	<u>(225)</u>	<u>(225)</u>
Stock split (Note M) (unaudited) .....	<u>74</u>	<u>(74)</u>	<u>—</u>
Balance, June 30, 1991 (unaudited) .....	<u>\$75</u>	<u>\$6,719</u>	<u>\$6,794</u>

See notes to Consolidated Financial Statements.

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,			Six Months Ended June 30,	
	1988	1989	1990	1990	1991
	(Unaudited)				
	(Columnar amounts in thousands)				
Cash flows from operating activities:					
Net income (loss) .....	\$2,944	\$ 2,884	(\$ 1,904)	\$ 2,776	(\$ 225)
Add (deduct) adjustments to reconcile net income to net cash from operating activities:					
Gain on sale of subsidiary stock .....	—	—	(1,361)	—	—
Minority interest .....	2,483	—	(7)	—	414
Depreciation and amortization .....	9,613	13,642	10,283	5,168	6,538
Changes in asset and liability accounts:					
Accounts receivable .....	(5,324)	2,790	(3,555)	2,843	(4,312)
Receivable from insurance company .....	—	(6,205)	11,371	11,371	—
Materials, supplies and other current assets .....	(1,639)	(1,168)	(4,650)	(4,243)	724
Accounts payable .....	4,112	7,642	1,198	3,753	(1,145)
Accrued and deferred taxes .....	2,804	970	(1,481)	477	1,989
Investment tax credits .....	(348)	(360)	(360)	(180)	(180)
Other .....	(531)	(3,597)	(2,143)	5,818	966
Net cash flows from operating activities .....	14,114	16,598	7,391	27,783	4,769
Cash flows from investing activities:					
Capital expenditures .....	(8,748)	(19,005)	(47,749)	(37,562)	(15,783)
Proceeds from sale of subsidiary stock .....	—	—	1,419	—	—
Acquisition of subsidiary, net of cash acquired .....	—	(1,717)	(3,308)	(1,164)	(13,657)
Acquisition of minority interest in subsidiary .....	—	(3,236)	—	—	—
Net cash flows from investing activities .....	(8,748)	(23,958)	(49,638)	(38,726)	(29,440)
Cash flows from financing activities:					
Repayment of long-term debt .....	(4,124)	(4,207)	(4,626)	—	(1,443)
Issuance of long-term debt, net of debt issuance costs .....	—	4,000	47,434	26,516	29,745
Net borrowings on notes and outstanding checks .....	(265)	6,258	3,669	(10,807)	(4,360)
Net cash flows from financing activities .....	(4,389)	6,051	46,477	15,709	23,942
Net increase (decrease) in cash .....	977	(1,309)	4,230	4,766	(729)
Cash, beginning of period .....	1,297	2,274	965	965	5,195
Cash, end of period .....	<u>\$2,274</u>	<u>\$ 965</u>	<u>\$ 5,195</u>	<u>\$ 5,731</u>	<u>\$ 4,466</u>
Supplemental cash flow information:					
Interest paid .....	<u>\$8,502</u>	<u>\$10,211</u>	<u>\$10,332</u>	<u>\$ 2,294</u>	<u>\$ 5,466</u>
Income taxes paid .....	<u>\$ 856</u>	<u>\$ 3,104</u>	<u>\$ 1,300</u>	<u>\$ —</u>	<u>\$ 1,000</u>

See notes to Consolidated Financial Statements.

# ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 1988, 1989 and 1990  
and Six Months Ended June 30, 1990 and 1991 (Unaudited)

### A. Significant Accounting Policies

*General.* Atlantic Tele-Network, Inc. (the "Company") was formed in 1986. In June 1987, the Company purchased 55% of the common stock of Atlantic Tele-Network Co. ("ATN-VI") for \$1 million. E.F. Hutton LBO, Inc. purchased the remaining 45% of the common stock of ATN-VI for \$2 million. ATN-VI then acquired all of the outstanding common stock of the Virgin Islands Telephone Corporation ("Vitelco") from ITT Communications Services, Inc., effective June 25, 1987, in a business combination accounted for as a purchase. The total cost of the acquisition was \$41,298,000 over the underlying book value of Vitelco. Such excess is being amortized on the straight-line method over 40 years. In January 1989, the Company acquired the remaining 45% of the common stock of ATN-VI for \$3,236,000. As of June 30, 1991, the Company's unamortized cost in excess of underlying book value is \$33,354,000. Vitelco is primarily engaged in providing telecommunications service in the U.S. Virgin Islands.

In January 1988, Vitelcom, Inc. was formed as a wholly-owned subsidiary of ATN-VI. In September 1988, Vitelco sold substantially all of its net investment in non-regulated assets and facilities effective as of January 1, 1988 to Vitelcom, Inc. Vitelcom is primarily engaged in the sale, leasing and servicing of customer premise equipment and commercial communications systems.

In 1989, ATN-VI formed Vitelcom Cellular, Inc. ("Vitelcom Cellular") which obtained a cellular license in the U.S. Virgin Islands and entered the cellular telephone business. In 1990, ATN-VI sold 10% of the common stock of Vitelcom Cellular, which resulted in a gain of \$1,361,000.

During 1990, the Company formed Puerto Rico Telecom Corporation ("PRT"), to resell long-distance telecommunications service to residential and commercial subscribers in Puerto Rico. PRT, which was in the development stage at December 31, 1990, devoted substantially all of its efforts in 1990 to obtaining market shares through entry in an "equal access" balloting marketing campaign and organizational activities. During July 1991, the Company's management decided to discontinue the operations of PRT. All expenses, including start-up and development expenses of PRT, have been expensed as incurred. See Note C on Discontinued Operations.

During 1990, the Company also formed Maritime Cellular Tele-Network, Inc. ("MCN") which is principally engaged in the sale of cellular telephone services to seagoing vessels. See Note M on Subsequent Events.

On January 28, 1991, the Company acquired an 80% interest in Guyana Telephone and Telegraph Company Limited ("GT&T") (previously Guyana Telecommunication Corporation) for \$16.5 million plus acquisition costs. This acquisition has been accounted for using the purchase method. The remaining 20% interest was acquired by the Government of Guyana through the transfer of net assets previously owned by the Guyana Telecommunication Corporation. The total cost of the acquisition was \$12,531,000 over the fair market value of the net tangible assets acquired. Such excess represents the value of franchise rights and is being amortized on the straight-line method over 40 years (the term of the license agreement including extensions which are at the Company's option). The net carrying value of the franchise rights as of June 30, 1991 was \$12,402,000.

*Basis of Presentation.* The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, ATN-VI, PRT and MCN, its majority-owned subsidiary (80%) GT&T, and ATN-VI's wholly-owned subsidiaries, Vitelco and Vitelcom, Inc. and majority owned (90%) Vitelcom Cellular. All material intercompany transactions and balances have been eliminated in consolidation.

The accounting policies of the Company and its subsidiaries conform to generally accepted accounting principles and, as to telecommunications operations, reflect practices appropriate to the telephone industry.

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
Years Ended December 31, 1988, 1989 and 1990  
and Six Months Ended June 30, 1990 and 1991 (Unaudited)

*Basis of Presentation of Unaudited Interim Financial Statements.* The unaudited interim consolidated financial statements furnished herein reflect all adjustments, which, except for the effect of discontinued operations discussed in Note C, consist only of normal recurring accruals, which are, in the opinion of management, necessary to fairly present the financial results for the interim period presented. The results for the six months ended June 30, 1991 are not necessarily indicative of the operating results for the full year not yet completed.

*Cash.* For purposes of the statement of cash flows, the Company considers all cash and investments with a maturity at acquisition of three months or less to be cash equivalents.

*Fixed Assets.* The original cost of fixed assets in service and under construction includes an allocation of indirect costs applicable to construction. Fixed assets also includes the acquisition cost of Vitelco in excess of underlying book value and the acquisition cost of GT&T franchises, all of which is being amortized over forty years, and is not considered in the determination of rates.

*Debt Issuance Costs.* Costs relating to the issuance of debt are being amortized on the effective interest method over the term of the debt.

*Accounts Payable.* Checks issued but not yet presented for payment to the bank of \$975,000 and \$3,000,000 at December 31, 1989 and 1990, respectively, are included in accounts payable. No such checks were issued but not presented for payment to the bank at June 30, 1991.

*Income Taxes.* Income taxes have been computed in accordance with Accounting Principles Board Opinion No. 11. The Company and MCN, U.S. corporations, file a consolidated U.S. tax return. ATN-VI files a consolidated U.S. Virgin Islands income tax return with its U.S. Virgin Islands subsidiaries. PRT files separately in Puerto Rico. GT&T files in Guyana.

PRT, GT&T and ATN-VI are "controlled foreign corporations" under the U.S. Internal Revenue Code, Title 26 U.S.C. (1986). Current income of these subsidiaries will not normally be includable in the U.S. consolidated taxable income of the Company until actually distributed. When so distributed, foreign tax credits will be allowable against U.S. taxes on the distribution equal to the foreign taxes actually paid on the distributed earnings. It is anticipated that these credits for foreign taxes paid will be sufficient to offset all U.S. taxes on the distributions. However, the distributions could be subject to withholding taxes imposed by the foreign jurisdictions which are currently 10%, in the case of the U.S. Virgin Islands, and, pursuant to the term of the purchase agreement with the Government of Guyana, zero with regard to distributions from GT&T. ATN-VI has not paid any dividends to the Company in the past and does not intend to remit any dividends in the foreseeable future. The cumulative undistributed earnings of ATN-VI amounted to \$15,345,000 as of December 31, 1990.

Deferred income taxes are provided for timing differences, principally due to the use of accelerated depreciation for income tax purposes and tax recognition rules regarding insurance claim proceeds.

Investment tax credits related to regulated telephone operations have been deferred and are being amortized into income over the service lives of the related property.

In December 1987, the Financial Accounting Standards Board ("FASB") issued Statement No. 96, "Accounting for Income Taxes," which supersedes previous income tax accounting standards and pronouncements. The Company is currently required to adopt the new accounting and disclosure rules no later than 1992; however, a recently issued FASB Exposure Draft would defer the required implementation to 1993. The Company has not decided when it will adopt the new standard.

*Depreciation.* The Company provides for depreciation using the straight-line and equal life group methods. With respect to regulated subsidiaries, the original cost of depreciable property retired, together with removal cost less any salvage realized, is charged to accumulated depreciation. No gain or loss is recognized in connection with ordinary retirements of depreciable property. Repairs and replacements of minor items of property are charged to maintenance expense.

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**Years Ended December 31, 1988, 1989 and 1990**  
**and Six Months Ended June 30, 1990 and 1991 (Unaudited)**

Effective January 1, 1989, Vitelco prospectively changed its depreciation method from the straight-line method to an equal life group method on fixed assets used to provide interstate access, to reflect more accurately the useful lives of such assets. The change in depreciation method resulted in additional depreciation expense of approximately \$480,000, \$839,000, \$420,000 and \$619,000 for the years ended December 31, 1989 and 1990 and the six months ended June 30, 1990 and 1991, respectively.

*Revenue.* Access charges and local exchange service revenues are recognized when earned, regardless of the period in which they are billed or collected.

Access charges are billed by the Company to the long distance carriers (primarily AT&T) for interconnection with local facilities and to end-user business and residential customers for access to long distance facilities.

Access revenues are recorded on the basis of estimated allocations of plant and operating expenses to long-distance service. These estimates are subject to review by the National Exchange Carriers Association, Inc. ("NECA"). The years 1989 and 1990 are still open for such review. In management's opinion, subsequent adjustments resulting from the NECA review will not materially affect the accompanying financial statements.

Cellular and long-distance service revenues included in Other Operations are derived from toll and cellular service to customers located in the U.S. Virgin Islands and the reselling of cellular telephone services to seagoing vessels. These revenues are recognized when earned regardless of the period in which they are billed to the customer.

*Translation of Foreign Currencies.* With regard to GT&T operations, for which the U.S. dollar is the functional currency, current assets (excluding prepaid expenses), current liabilities and long-term monetary assets and liabilities are translated at the rates in effect at the balance sheet date, whereas other assets and other liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year except for depreciation and amortization which are translated at exchange rates prevailing when the related assets were acquired. Currency gains and losses are reflected in net income of the period.

*Postretirement Benefits.* The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This Statement, which is effective for fiscal years beginning after December 15, 1992, will require accrual of post-retirement benefits (such as health care benefits) during the years in which an employee provides services. The costs of these benefits are currently expensed on a pay-as-you-go basis and were approximately \$28,000, \$58,000, \$57,000, \$26,000 and \$31,000 for the years ended December 31, 1988, 1989 and 1990 and the six months ended June 30, 1990 and 1991, respectively. The impact of this new standard has not been fully determined.

*Reclassifications.* Certain reclassifications have been made to the 1988 and 1989 financial statements to conform with the 1990 and 1991 presentation.

**B. Acquisition of Guyana Telephone and Telegraph Company Limited**

As discussed in Note A, the Company acquired an 80% interest in GT&T in January, 1991. Included in the statement of income for the six months ended June 30, 1991 is the Company's share of undistributed earnings from GT&T of \$1,590,000. GT&T has made certain commitments to the Government of Guyana with respect to the building of plant and quality of service over the next 2½ years. Management estimates that approximately \$55 million will be spent (including approximately \$7.9 million expended prior to the acquisition and approximately \$6.8 million expended since the acquisition through June 30, 1991) in connection with this commitment.

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
Years Ended December 31, 1988, 1989 and 1990  
and Six Months Ended June 30, 1990 and 1991 (Unaudited)

The financial statements include the operations of GT&T commencing February 1, 1991. The following unaudited summary, prepared on a pro forma basis, assumes that the Company's acquisition of GT&T occurred as of January 1, 1990.

	Pro Forma Results	
	Year Ended December 31, 1990	Six Months Ended June 30, 1991
	(In thousands, except per share amounts)	
Telephone operations:		
Net revenues .....	\$74,398	\$37,139
Net expenses .....	45,833	22,831
Income from other operations .....	1,159	326
Loss on foreign exchange .....	792	—
Non-operating revenues and expenses, net .....	(11,502)	(7,311)
Income from continuing operations before income taxes and minority interest .....	17,430	7,323
Income taxes .....	7,697	3,691
Minority interest .....	(1,425)	(552)
Income from continuing operations .....	8,308	3,080
Income per share from continuing operations .....	1.11	.41

The pro forma results for the year ended December 31, 1990 reflect a loss on foreign exchange of \$792,000, which resulted from the official exchange rate as determined by the Government of Guyana changing from G\$33—U.S. \$1.00 at December 31, 1989 to G\$45—U.S. \$1.00 at December 31, 1990. In 1991, the official exchange rate was changed from a fixed rate determined by the Government to a floating market rate subject to weekly fluctuations. At June 30, 1991, the market exchange rate was G\$124—U.S.\$1.00. Because of the unavailability of a comparable market exchange rate at December 31, 1990, the results for the six months ended June 30, 1991 do not include a gain or loss on foreign exchange transactions.

**C. Discontinued Operations**

During July 1991, the Company's management decided to discontinue the operations of PRT, whose operations represent substantially all of the Company's activities in the business of reselling long-distance telecommunications service provided by unaffiliated, facilities-based operators. It is expected that all assets of PRT will be disposed of before December 31, 1991. Provision has been made in the June 30, 1991 interim statement of operations for estimated losses during the phase-out period and to write down net assets of the discontinued operations to net realizable value.

Operations of PRT for the year ended December 31, 1990 have been reclassified and reported separately in the consolidated statement of operations. Net revenues of PRT were \$863,000 and \$3,550,000 for the year ended December 31, 1990 and the six months ended June 30, 1991, respectively.

The loss on disposition is an estimate of costs of disposition and write down of equipment to net realizable value. These estimates may change upon final disposition.

**D. Hurricane Hugo**

On September 17, 1989, Hurricane Hugo struck the Virgin Islands causing extensive damage to Vitelco's plant. The Company filed a \$20.7 million claim for property damage under the insurance policy in effect at the time of the hurricane. In 1990, the insurer paid \$12.5 million of advances with respect to this claim, the Virgin Islands Insurance Commissioner awarded the Company an additional

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Years Ended December 31, 1988, 1989 and 1990  
and Six Months Ended June 30, 1990 and 1991 (Unaudited)

\$4.9 million and both the Company and the insurer appealed the Commissioner's ruling to the U.S. District Court in the Virgin Islands. The Company has reduced its net fixed assets by \$17.4 million, the amount of the Commissioner's award plus payment by insurers, and recorded the \$4.9 million unpaid portion of the award as a receivable from the insurer. If the Commissioner's award is reduced on appeal, the Company believes that Vitelco's rate base will correspondingly increase and accordingly, net fixed assets would also correspondingly increase.

The Company and its subsidiaries are also insured, as outlined and defined under the terms of the insurance contract, for losses resulting from interruptions in their normal business operations in a maximum amount totalling \$23 million. The Company is currently in dispute with its insurance carrier on both the unpaid property damage claim and the business interruption claim. Both the Company and the insurance carrier are pursuing resolution of this matter in U.S. District Court.

From the date of the hurricane to March 31, 1990, Vitelco incurred costs in providing local service and interchange and operator service which were not recovered by revenues received for providing such services. Vitelcom also incurred costs which were not recovered by its revenues during the same time period. Management and legal counsel believe that it is probable that amounts significantly exceeding such unrecovered costs, which totalled \$3.9 million in 1989 and \$1.1 million in 1990, will be recovered through a business interruption claim, and, accordingly, the Company has recorded a receivable as set forth below and revenue from its business interruption claim to effectively offset such unrecovered costs.

The receivable from insurance company at December 31, 1990 and June 30, 1991 consists of the \$4.9 million remainder of the property damage claim and \$5 million its business interruption insurance claim.

**E. Accounts Receivable**

Accounts receivable consist of the following:

	December 31,		June 30,
	1989	1990	1991
			(Unaudited)
	(In thousands)		
Subscribers and installment sales, net of allowance for doubtful accounts of \$255,000, \$249,000 and \$1,158,000 ..	\$6,540	\$ 8,303	\$10,489
Connecting companies (see Note L) .....	1,053	2,889	9,045
Other .....	336	292	1,165
	<u>\$7,929</u>	<u>\$11,484</u>	<u>\$20,699</u>

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
Years Ended December 31, 1988, 1989 and 1990  
and Six Months Ended June 30, 1990 and 1991 (Unaudited)

**F. Property, Plant and Equipment**

Property, plant and equipment consist of the following:

	December 31, <u>1989</u>	1990 <u>1990</u>	June 30, <u>1991</u> (Unaudited)
	(In thousands)		
Used in telephone operations:			
Outside plant .....	\$28,119	\$ 77,580	\$ 81,976
Central office equipment .....	30,129	31,097	32,221
Land and building .....	7,851	7,865	13,909
Station equipment .....	7,563	5,581	5,758
Furniture and office equipment .....	2,027	2,442	2,401
Construction in process .....	10,372	5,126	22,702
Other .....	3,423	6,039	5,996
Total used in telephone operations .....	<u>89,484</u>	<u>135,730</u>	<u>164,963</u>
Used in other operations .....	9,907	10,889	13,491
	<u>\$99,391</u>	<u>\$146,619</u>	<u>\$178,454</u>

All property, plant and equipment used in telephone operations are recorded at their original cost except for the property, plant and equipment of GT&T which were recorded at their fair market value of \$16,052,000.

**G. Other Assets**

Other assets consist of the following:

	December 31, <u>1989</u>	1990 <u>1990</u>	June 30, <u>1991</u> (Unaudited)
	(In thousands)		
Acquisition costs for GT&T .....	\$ 1,076	\$ 4,384	\$ —
Deferred costs and intangibles, net .....	6,062	5,633	5,409
Rural Telephone Finance Corporation certificates and patronage dividends receivable .....	2,502	3,229	3,370
Other .....	1,190	1,344	3,881
	<u>\$10,830</u>	<u>\$14,590</u>	<u>\$12,660</u>

**H. Notes Payable**

The Company has in place a \$500,000 line of credit, bearing interest at 0.25% over prime rate. The interest rate was 9.75% at December 31, 1990 and 8.75% at June 30, 1991. As of December 31, 1990 and June 30, 1991, \$500,000 was outstanding on this arrangement.

In January 1991, the Company received a \$1.3 million short-term loan from the Rural Telephone Finance Corporation (the "RTFC"), due in monthly payments of \$350,000, including principal and interest, which began May 15, 1991. The outstanding balance at June 30, 1991 was \$640,000 with an interest rate of 8.5%.

Vitelco has a \$5 million revolving line of credit with the RTFC, which expires in September 1994, and a \$2.5 million unsecured line with a bank which is due on demand. As of December 31, 1990 and June 30, 1991, the RTFC line had an outstanding balance of \$4,738,000 and the bank line had an

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**Years Ended December 31, 1988, 1989 and 1990**  
**and Six Months Ended June 30, 1990 and 1991 (Unaudited)**

outstanding balance of \$2,500,000. The lines have variable rates of interest which were 9.125% and 10.25%, respectively, at December 31, 1990 and 8.0% and 8.75%, respectively, at June 30, 1991.

In addition, in 1990, ATN-VI obtained a short-term loan from ITT Intermedia, Inc. for \$1,000,000. The note requires monthly payments of at least \$200,000 plus interest commencing February 10, 1991. Interest is charged at prime rate plus 1% and was 10.5% at December 31, 1990. The balance at December 31, 1990 was \$1,000,000 and at June 30, 1991 was zero.

An advertising agency has advanced funds to PRT under an agreement requiring repayment of the amounts advanced plus accrued interest at prime rate. The interest rate was 9.5% at December 31, 1990 and 8.5% at June 30, 1991. The note matures in November 1991 and is guaranteed by the Company. The balance was \$2,718,000 and \$1,718,000 at December 31, 1990 and June 30, 1991, respectively. PRT also owes \$995,000 at December 31, 1990 and June 30, 1991 under a financing agreement which is collateralized by certain communication equipment, which amount bears interest at 1.5% over prime rate and is due at a date to be determined by the creditor. The interest rate was 11% at December 31, 1990 and 10% at June 30, 1991.

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
Years Ended December 31, 1988, 1989 and 1990  
and Six Months Ended June 30, 1990 and 1991 (Unaudited)

**I. Long-term Debt**

Long-term debt consists of the following:

	December 31, 1989	1990	June 30, 1991 (Unaudited)
	(In thousands)		
Company:			
Note payable to Northern Telecom International Finance B.V. ("NTIF"), pursuant to an Acquisition Financing Agreement (the "GT&T Acquisition Loan"), to be repaid in ten quarterly payments of \$435,000, plus interest at LIBOR plus 4% (9.9% at June 30, 1991) commencing on July 15, 1991, with the remaining balance due in January 1994. The above described payments must include 75% of the Company's "Excess Cash Flow" as defined. ....	\$ —	\$ —	\$ 18,242
Note payable to ITT, due January 1996, with quarterly interest payments required commencing July 1991. The note bears interest at a variable rate which was 8.625% at December 31, 1990 and 7.125% at June 30, 1991. ....	4,000	4,000	4,000
	4,000	4,000	22,242
Subsidiaries:			
Notes payable to RTFC, to be repaid quarterly through December 30, 2002. Initially both notes bore interest at a variable rate which was 8.625% at December 31, 1990 and 7.125% at June 30, 1991. During 1991, the interest rate on all except approximately \$3,000,000 of the Vitelco/RTFC note was changed to a fixed rate of 9.75%. The variable rate applicable to the remaining portions of the notes can be fixed as provided in the notes, at the lender's option.			
ATN-VI .....	42,749	41,798	41,417
Vitelco .....	53,730	50,211	48,663
	96,479	92,009	90,080
Less RTFC subordinated capital certificates .....	(10,444)	(10,444)	(9,823)
	86,035	81,565	80,257
Notes payable to Rural Electrification Administration (the "REA"). The REA will lend Vitelco up to \$66,214,000 at an interest rate of 5% to finance construction of Vitelco's telephone facilities. This arrangement calls for monthly interest payments for the first four years and fixed monthly payments of \$7.04 per \$1,000 of loan balance for the fifth through the twenty-second year of the loan, with any remaining balance due May 2012. ....	—	47,736	57,138
Notes payable to NTIF by GT&T under an \$11,500,000 supply loan (the "GT&T Supply Loan") and a \$34 million equipment financing agreement (the "GT&T Equipment Loan"). The GT&T Supply Loan, which had a balance of \$9,520,000 at June 30, 1991, requires interest only payments until February 15, 1992 at which time principal and interest will both be payable in monthly installments with final maturity on January 15, 1999. The GT&T Equipment Loan, which had a balance of \$2,925,000 at June 30, 1991, requires repayments of advances in 120 monthly payments of which the first nine are interest only and the remainder are principal and interest with all outstanding balances due October 15, 2004. A commitment fee of 0.375% on the undrawn portion is charged annually. At June 30, 1991, the current interest rate on the GT&T Equipment Loan, calculated at LIBOR plus 3%, was 8.9%, and the rate on the GT&T Supply Loan was fixed at 11.75%. ....	—	—	12,445
Other .....	152	1,576	1,442
	90,187	134,877	173,524
Less current portion .....	4,622	5,982	6,930
	<u>\$85,565</u>	<u>\$128,895</u>	<u>\$166,594</u>

The GT&T Acquisition Loan restricts the Company from paying dividends in excess of certain defined amounts. At June 30, 1991, the Company could pay no dividends of any significant amount.

The GT&T Acquisition Loan is secured by a lien on all of the stock of GT&T owned by the Company and on certain rights under the Company's OPIC insurance. The ITT note is collateralized by

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
Years Ended December 31, 1988, 1989 and 1990  
and Six Months Ended June 30, 1990 and 1991 (Unaudited)

40% of the common stock of ATN-VI. The ATN-VI/RTFC loan is secured by a lien on substantially all of the assets of ATN-VI, and the Vitelco/RTFC loan and the REA loan are ratably secured by liens on substantially all of the assets of Vitelco and Vitelcom.

The GT&T Equipment Loan is secured by a security interest in all net toll revenues due to GT&T from U.S., British and Canadian carriers. GT&T is also required to maintain a debt service reserve fund under this loan agreement. The balance of this fund, included in other assets, was \$600,000 at June 30, 1991, and must be increased monthly until the balance reaches \$3.9 million in June, 1992. The GT&T Supply Loan is secured by a security interest in certain of GT&T's international net toll revenues.

Certain agreements require, among other things, maintenance of minimum debt service and times interest earned coverages and restrictions on issuance of additional long-term debt. The RTFC agreement prohibits the payment of dividends by ATN-VI through 1990, with dividend payments thereafter limited to 40% of ATN-VI's consolidated net income, contingent upon ATN-VI's ability to meet certain financial ratios which were not met at June 30, 1991. At December 31, 1990, ATN-VI's restricted net assets of subsidiaries totalled \$15,242,000. At June 30, 1991, the ability of ATN-VI to service its debt was solely dependent upon funds received from Vitelco. The REA loan and applicable REA regulations restrict Vitelco's ability to pay dividends in an amount greater than 25% of its net earnings for the previous year unless Vitelco satisfied certain net worth tests. At June 30, 1991, Vitelco had no ability to pay any dividends. Under one of the applicable REA restrictions, after Vitelco has accumulated \$6,625,000 of retained earnings subsequent to June 30, 1991, Vitelco could pay dividends equal to 60% of any additional accumulated retained earnings. An agreement made in July 1991 with the U.S. Virgin Islands Public Service Commission also contains restrictions on dividends by Vitelco which, in general, are less restrictive than those imposed by the REA.

The REA and RTFC debt agreements contain provisions which may require prepayments of RTFC debt in the event of future advances from the REA. The annual requirements for principal payments, exclusive of potential prepayment requirements and payments of excess cash flows, on such long-term debt for the years 1991 through 1995 are as follows:

<u>Years Ending December 31,</u>	<u>RTFC Notes</u>		<u>REA Note</u> (In thousands)	<u>NTIF Notes</u>	<u>Other Debt</u>
	<u>Vitelco</u>	<u>ATN-VI</u>			
1991 .....	\$4,366	\$1,341	\$ —	\$ 948	\$275
1992 .....	4,110	1,111	—	2,967	202
1993 .....	1,646	3,995	—	3,154	228
1994 .....	1,907	4,189	—	15,140	256
1995 .....	2,189	4,398	1,970	1,603	289

As a condition of being granted the RTFC loan, the Company was required to invest \$10,444,000 in subordinated capital certificates with the RTFC. The \$10,444,000 is reflected as a reduction in long-term debt on the balance sheets for the years ended 1990 and 1989. In accordance with the loan agreement, a portion of the subordinated capital certificates was applied against the loan balance during 1991. The balance of the subordinated capital certificates as of June 30, 1991 was \$9,823,000. These certificates are non-interest bearing but entitle the Company to share proportionately in the net earnings of the RTFC of which Vitelco and ATN-VI's share, included as an offset to interest expense, was \$1,205,000, \$1,173,000 and \$1,225,000 for the three years ended December 31, 1988, 1989 and 1990 and \$559,000 and \$450,000 for the six months ended June 30, 1990 and 1991, respectively. RTFC distributions of net earnings are made primarily through additional issuances of capital certificates (included in other assets) which are then retired over a six-year period.

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Years Ended December 31, 1988, 1989 and 1990  
and Six Months Ended June 30, 1990 and 1991 (Unaudited)

The Company was not in compliance with certain provisions of the RTFC loan at December 31, 1990 and June 30, 1991 and of the GT&T Acquisition Loan at June 30, 1991. The Company has received letters from the RTFC which permanently waive the RTFC's rights to accelerate payment of the RTFC loan as a result of the violations. The Company also obtained a waiver of the violations in the GT&T Acquisition Loan through October 1992.

**J. Income Taxes**

Substantially all pre-tax income is derived from foreign sources, including the U.S. Virgin Islands, which is a separate taxing jurisdiction.

The following is a reconciliation from the tax computed at statutory income rates to the Company's income tax expense (benefits):

	Year Ended December 31,			Six Months Ended June 30,	
	1988	1989	1990	1990	1991
	(Unaudited)				
	(In thousands)				
Tax computed at statutory U.S. federal income tax rates .....	\$2,797	\$1,940	(\$744)	\$1,555	\$1,025
U.S. Virgin Islands surtax .....	248	241	232	161	154
U.S. Virgin Island Industrial Development Credit .....	—	(422)	(262)	(180)	(171)
Amortization of investment tax credits .....	(348)	(360)	(360)	(180)	(180)
Amortization of cost in excess of underlying book value not deductible for tax purposes...	351	318	320	176	150
Operating losses generating no current tax benefit .....	—	452	255	228	1,132
Guyana income taxes in excess of statutory U.S. rate .....	—	—	—	—	201
Other, net .....	(248)	649	275	37	516
Income tax expense (benefit) .....	\$2,800	\$2,818	(\$284)	\$1,797	\$2,827

Income tax expense included in the consolidated statements of income is comprised of the following:

	Year Ended December 31,			Six Months Ended June 30,	
	1988	1989	1990	1990	1991
				(Unaudited)	
	(In thousands)				
Current:					
U.S. Virgin Islands .....	\$2,802	\$1,676	\$1,849	\$1,433	\$1,819
Guyana .....	—	—	—	—	1,328
Deferred .....	346	1,502	(1,773)	544	(140)
Amortization of investment tax credits .....	(348)	(360)	(360)	(180)	(180)
	<u>\$2,800</u>	<u>\$2,818</u>	<u>(\$ 284)</u>	<u>\$1,797</u>	<u>\$2,827</u>

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
Years Ended December 31, 1988, 1989 and 1990  
and Six Months Ended June 30, 1990 and 1991 (Unaudited)

Deferred tax expense results from timing differences in the recognition of revenues and expenses for tax and financial statement purposes. The sources of these differences and the tax effect of each are as follows:

	Year Ended December 31,			Six Months Ended June 30,	
	1988	1989	1990	1990	1991
	(In thousands)			(Unaudited)	
Depreciation and amortization .....	\$503	\$ 510	\$ 550	\$275	\$250
Business interruption insurance income .....	—	1,351	494	494	—
Loss on discontinued operations .....	—	—	(2,753)	—	(360)
Other .....	(157)	(359)	(64)	(225)	(30)
Total deferred taxes .....	<u>\$346</u>	<u>\$1,502</u>	<u>(\$1,773)</u>	<u>\$544</u>	<u>(\$140)</u>

**K. Retirement Plans**

The Company has noncontributory defined benefit plans for eligible hourly and salaried employees which cover all employees of the Company and its subsidiaries, except GT&T, who are not members of a collective bargaining unit and who meet certain age and employment criteria. The funding policy is to contribute annually the minimum amount that may be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service date, but also for those expected to be earned in the future. The benefits are based on the participants' average salary preceding termination for the "salaried plan" and credited service years for the "hourly plan."

Net periodic pension cost was:

	Year Ended December 31,		
	1988	1989	1990
	(In thousands)		
Service cost .....	\$173	\$283	\$370
Interest on projected benefit obligation .....	220	251	399
Actual return on assets .....	(98)	341	(79)
Net amortization and deferral .....	93	(265)	60
Net periodic pension cost .....	<u>\$388</u>	<u>\$610</u>	<u>\$750</u>

The Company has accrued pension expense of \$306,000 and \$424,000 for the six months ended June 30, 1990 and 1991, respectively.

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
Years Ended December 31, 1988, 1989 and 1990  
and Six Months Ended June 30, 1990 and 1991 (Unaudited)

The following table sets forth the funded status, the amounts recognized in the balance sheet of the Company at December 31, 1990 and 1989, and the principal assumptions of the Company's plans:

	December 31,	
	1989	1990
	(In thousands)	
Actuarial present value of benefit obligations:		
Vested benefits .....	\$3,234	\$4,507
Nonvested benefits .....	67	117
Accumulated plan benefits .....	<u>\$3,301</u>	<u>\$4,624</u>
Projected benefit obligation .....	\$4,689	\$6,121
Plan assets at contract value .....	<u>1,948</u>	<u>2,640</u>
Plan projected benefit obligation in excess of assets .....	2,741	3,481
Unrecognized net loss .....	146	488
Unrecognized prior service costs .....	1,795	2,162
Unrecognized net obligation at January 1, 1987 .....	<u>240</u>	<u>222</u>
Pension liability included in the balance sheet .....	<u>\$ 560</u>	<u>\$ 609</u>
Discount rate .....	<u>8.0%</u>	<u>8.5%</u>
Expected rate of return on invested assets .....	<u>8.0%</u>	<u>9.0%</u>

In 1989, the Company adopted paragraphs 36-38 of FASB No. 87, "Employer's Accounting for Pensions". In accordance with FASB 87, an additional minimum pension liability is recognized if the liability already recognized is less than the unfunded accumulated benefit obligation. At December 31, 1989 and 1990, and June 30, 1991, \$535,000, \$1,374,000 and \$1,374,000, respectively, is recorded as an intangible asset in other assets and as a pension liability in other long-term obligations.

In 1989, a significant portion of the hourly employee plan's assets were transferred to Executive Life Insurance Company ("Executive") for the purchase of non-participating annuity contracts. Substantially all of the salaried plan's assets of \$707,000 are invested in an account with Executive.

In addition, the Company and its subsidiaries have an investment and savings plan for all salaried employees which covers all employees of the Company and its subsidiaries, except GT&T, who are not members of a collective bargaining unit and who meet certain age and employment criteria. With respect to such plan, the Company expensed \$104,000, \$244,000 and \$116,000 for the years ended December 31, 1988, 1989 and 1990, respectively, and \$44,000 and \$62,000 for each of the six months ended June 30, 1990 and 1991, respectively.

#### **L. Regulatory Matters**

In July 1991, Vitelco and the Virgin Islands Public Services Commission (the "PSC") reached an agreement resolving several disputed issues. The agreement vacated, among other matters, a proposed \$1.7 annual rate reduction that would have been effective April 1, 1990. The agreement, among other things, requires Vitelco to achieve by December 31, 1991 and thereafter to maintain a 25% debt-to-equity ratio and to implement certain customer services.

In a separate proceeding before the PSC, hearings were conducted in March 1991 in which the PSC's staff proposed a \$6.8 million annual rate reduction while Vitelco countered with a proposed \$5.3 million annual rate increase. The matter is currently under consideration by the PSC. The rates determined in this proceeding would be retroactive to January 1, 1991.

**ATLANTIC TELE-NETWORK, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
Years Ended December 31, 1988, 1989 and 1990  
and Six Months Ended June 30, 1990 and 1991 (Unaudited)

The Company is in dispute with NECA regarding the methodology for determination of access revenues relating to the years ended December 31, 1988, 1989 and 1990 and the six months ended June 30, 1990 and 1991. The Company has recognized access revenues of \$785,000 in 1988, \$382,000 in 1989, \$257,000 in 1990, and \$125,000 for the six months ended June 30, 1991 related to this matter. Although management believes the Company's methodology is proper, the outcome of this matter cannot presently be determined.

The Company also has pending before the FCC a review of the reasonableness of the Company's traffic sensitive access rates. The Company recognized approximately \$800,000 of revenue during the first six months of 1990 related to this matter.

**M. Subsequent Events**

On September 25, 1991, the Board of Directors of the Company authorized a 78,947-to-one stock split, and an increase in the number of authorized shares to 20,000,000 shares. All applicable share and per share data have been restated to reflect the stock split.

On August 12, 1991, the Company sold 10% of the common stock of MCN and granted options for the purchase of an additional 35% of MCN's common stock for \$423,000.

**REPORT OF THE AUDITORS  
TO THE MEMBERS OF  
GUYANA TELECOMMUNICATION CORPORATION**

We have examined the financial statements set out on pages F-21 to F-29 which are in agreement with the books of the Corporation and have obtained all the information and explanations we have required, having regard to the matter referred to in the following paragraph. Our examination was made in accordance with generally accepted auditing standards and included such tests and procedures we considered necessary.

In our opinion, these financial statements give a true and correct view of the state of affairs of the Corporation at December 31, 1990 and 1989, and the results of its operations and source and application of funds for each of the three years in the period ended December 31, 1988, 1989 and 1990, in conformity with International Accounting Standards.

As discussed in Note 11, a substantial portion of the Corporation's assets and certain liabilities were sold in 1991. No adjustment has been made in the financial statements as a result of this.

DELOITTE & TOUCHE

Member  
DRT International

77 Brickdam  
Georgetown, Guyana  
21 March 1991